

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--|--|-------------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of New Baltimore, Michigan | County Macomb |
| Fiscal Year End June 30, 2007 | Opinion Date October 2, 2007 | Date Audit Report Submitted to State November 20, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|---|--------------------|----------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) Rehmann Robson | | Telephone Number 248-952-5000 | | |
| Street Address 5750 New King Street, Ste. 200 | | City Troy | State MI | Zip 48098 |
| Authorizing CPA Signature Thomas Darling, CPA <small>Digitally signed by Thomas Darling, CPA DN: cn=Thomas Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2007.11.21 07:13:38 -0500</small> | | Printed Name Thomas E. Darling, CPA | | License Number A246550 |



**CITY OF NEW BALTIMORE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2007



**CITY OF NEW BALTIMORE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2007

CITY OF NEW BALTIMORE, MICHIGAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2007

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 2, 2007

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of New Baltimore, Michigan**, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of New Baltimore, Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of New Baltimore, Michigan**, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2007 on our consideration of the ***City of New Baltimore, Michigan***'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 13 and the Schedule of Funding Progress on Page 54 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of New Baltimore, Michigan***'s basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of New Baltimore, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2007.

Financial Highlights

- Total net assets increased \$978,453 as a result of this year's operations. Net assets of our governmental activities increased \$730,513 while business-type activities increased by \$247,940 for the year.
- Total cost of all of the City's programs was \$12,133,844 for the year.
- The General Fund increased fund balance by \$15,317 to \$1,652,303 at year end. Strict control of expenditures allowed transfers of \$487,341 into the Public Improvement Fund.
- The City had a net increase for investment in capital assets of \$5,249,500 including contributed streets from subdivisions and purchases of land, vehicles and equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

legislative, general government, public safety, public works, highways and streets, building and planning, culture and recreation, and other functions. The business-type activities of the City include water distribution and sanitary sewer operations.

The government-wide financial statements include not only the City of New Baltimore itself (known as the *primary government*), but also a legally separate downtown development authority, local development financing authority, and an economic development corporation, all of which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds.** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund which is considered to be the City's only major fund. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* after the *Notes to the Financial Statements*.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General and special revenues funds.

2. **Proprietary funds.** The City maintains two different types of proprietary funds: *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water drainage operations. *Internal Service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment, public service and retiree health care activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water, sewer and storm water funds are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of New Baltimore, assets exceeded liabilities by \$58,857,101 at the close of the most recent fiscal year.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

By far the largest portion of the City's net assets (73%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of New Baltimore's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other assets | \$ 8,528,165 | \$ 8,235,244 | \$ 9,837,283 | \$ 9,955,821 | \$ 18,365,448 | \$ 18,191,065 |
| Capital assets, net | <u>22,307,880</u> | <u>22,645,954</u> | <u>39,666,794</u> | <u>34,079,220</u> | <u>61,974,674</u> | <u>56,725,174</u> |
| Total assets | <u>30,836,045</u> | <u>30,881,198</u> | <u>49,504,077</u> | <u>44,035,041</u> | <u>80,340,122</u> | <u>74,916,239</u> |
| Current liabilities | 924,978 | 997,597 | 1,622,981 | 1,280,870 | 2,547,959 | 2,278,467 |
| Noncurrent liabilities | <u>18,892,241</u> | <u>19,595,288</u> | <u>42,821</u> | <u>54,608</u> | <u>18,935,062</u> | <u>19,649,896</u> |
| Total liabilities | <u>19,817,219</u> | <u>20,592,885</u> | <u>1,665,802</u> | <u>1,335,478</u> | <u>21,483,021</u> | <u>21,928,363</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 3,557,880 | 3,237,954 | 39,666,794 | 34,079,220 | 43,224,674 | 37,317,174 |
| Restricted assets | 4,706,564 | 4,583,074 | 2,328,942 | 7,879,017 | 7,035,506 | 12,462,091 |
| Unrestricted | <u>2,754,382</u> | <u>2,467,285</u> | <u>5,842,539</u> | <u>5,632,098</u> | <u>8,596,921</u> | <u>8,099,383</u> |
| Total net assets | <u>\$ 11,018,826</u> | <u>\$ 10,288,313</u> | <u>\$ 47,838,275</u> | <u>\$ 47,590,335</u> | <u>\$ 58,857,101</u> | <u>\$ 57,878,648</u> |

An additional portion of the City's net assets, \$7,035,506 or 12% represents resources that are subject to external or code restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$8,596,921 or 15%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$978,453 during the current fiscal year.

Governmental activities. Governmental activities increased the City's net assets by \$730,514. Governmental Key elements of this are as follows:

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

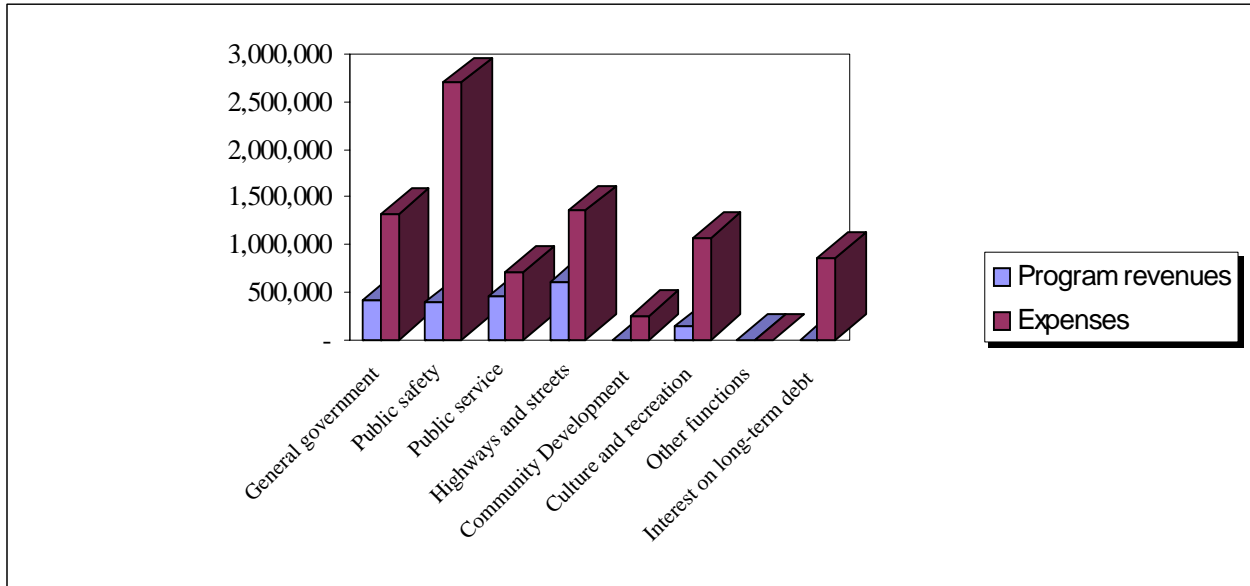
City of New Baltimore's Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|---------------|-----------------------------|---------------|---------------|---------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenue: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,311,271 | \$ 1,254,720 | \$ 2,814,553 | \$ 2,776,438 | \$ 4,125,824 | \$ 4,031,158 |
| Operating grants and contributions | 628,826 | 719,231 | - | - | 628,826 | 719,231 |
| Capital grants and contributions | 46,404 | - | 518,541 | 35,642 | 564,945 | 35,642 |
| General revenues: | | | | | | - |
| Property taxes | 5,907,560 | 5,836,384 | - | - | 5,907,560 | 5,836,384 |
| State shared revenue | 856,874 | 927,006 | - | - | 856,874 | 927,006 |
| Other | 525,425 | 365,029 | 502,843 | 662,339 | 1,028,268 | 1,027,368 |
| Total revenues | 9,276,360 | 9,102,370 | 3,835,937 | 3,474,419 | 13,112,297 | 12,576,789 |
| Expenses: | | | | | | |
| General government | 1,465,266 | 1,320,542 | - | - | 1,465,266 | 1,320,542 |
| Public safety | 2,912,127 | 2,702,954 | - | - | 2,912,127 | 2,702,954 |
| Public works | 764,252 | 712,985 | - | - | 764,252 | 712,985 |
| Highways and streets | 1,379,274 | 1,352,259 | - | - | 1,379,274 | 1,352,259 |
| Community development | 229,468 | 248,357 | - | - | 229,468 | 248,357 |
| Culture and recreation | 1,091,951 | 1,068,696 | - | - | 1,091,951 | 1,068,696 |
| Interest on long-term debt | 851,152 | 858,248 | - | - | 851,152 | 858,248 |
| Water | - | - | 1,516,456 | 1,372,361 | 1,516,456 | 1,372,361 |
| Sewer | - | - | 1,470,063 | 1,510,300 | 1,470,063 | 1,510,300 |
| Storm water | - | - | 453,835 | 214,144 | 453,835 | 214,144 |
| Total expenses | 8,693,490 | 8,264,041 | 3,440,354 | 3,096,805 | 12,133,844 | 11,360,846 |
| Increase in net assets before transfers | 582,870 | 838,329 | 395,583 | 377,614 | 978,453 | 1,215,943 |
| Transfers | 147,643 | (1,347) | (147,643) | 1,347 | - | - |
| Increase in net assets | 730,513 | 836,982 | 247,940 | 378,961 | 978,453 | 1,215,943 |
| Net assets-beginning | 10,288,313 | 9,451,331 | 47,590,335 | 47,211,374 | 57,878,648 | 56,662,705 |
| Net assets-ending | \$ 11,018,826 | \$ 10,288,313 | \$ 47,838,275 | \$ 47,590,335 | \$ 58,857,101 | \$ 57,878,648 |

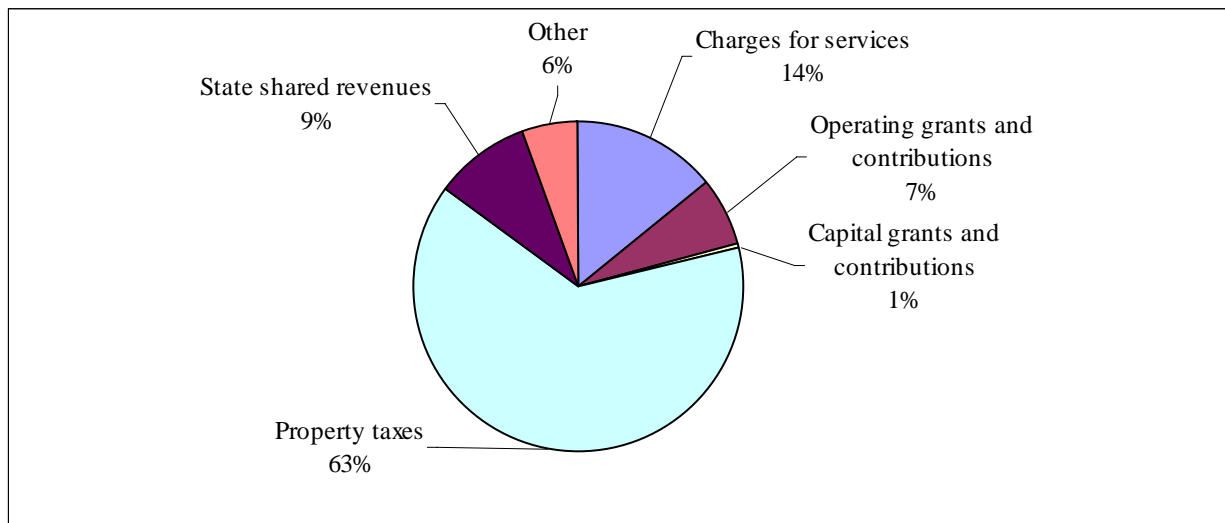
CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities

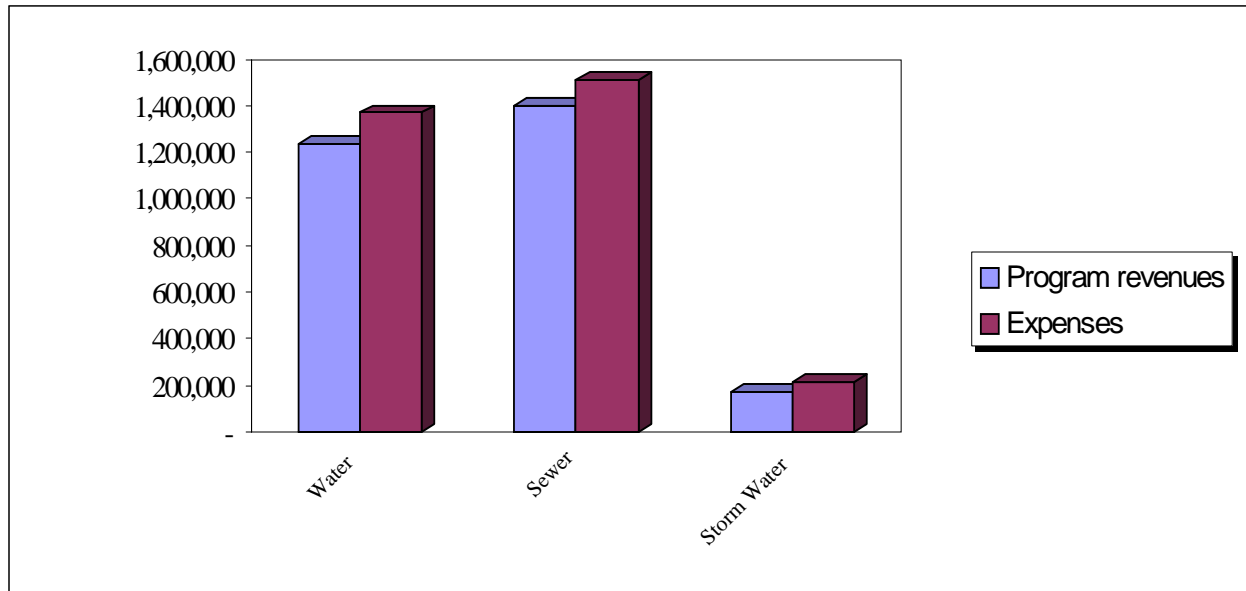


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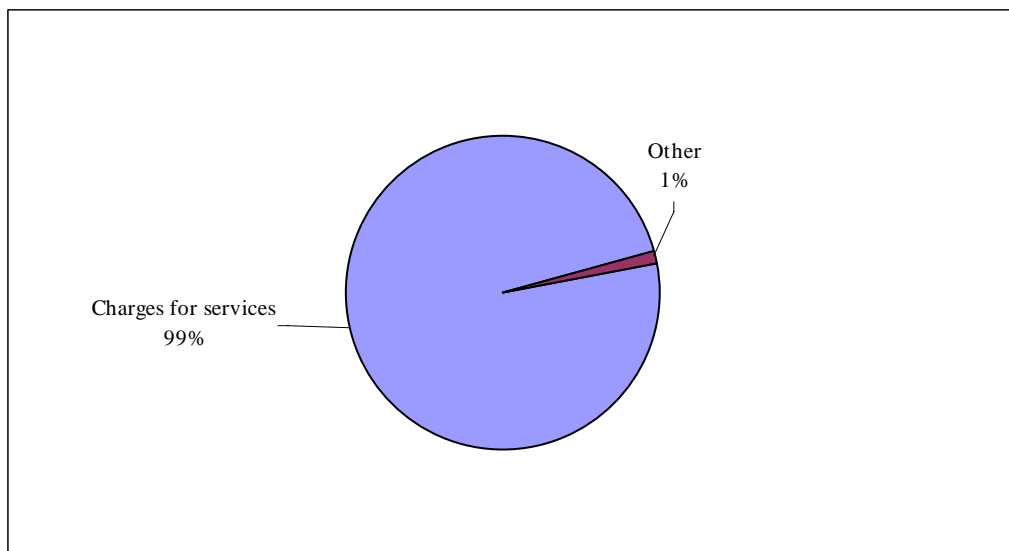
Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net assets by \$247,940.

Expenses and Program Revenues - Business-Type Activities



Revenues by Sources – Business-Type Activities



CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,309,687 for an increase of \$89,630 in comparison with the prior year. Approximately 92% of this total amount, or \$5,793,756 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

Major Governmental Funds:

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$1,616,364, while total fund balance was \$1,652,303 at year end. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 28.7% of total general fund expenditures, while total fund balance represents 29.4% of the same amount.

The fund balance of the City's general fund increased by \$15,317 during the current fiscal year. This is attributable primarily to increases in property tax revenues, charges for services and increased state revenue sharing due to the 2004 special census population increase. Strict control over expenditures was also a contributing factor.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the year amounted to \$5,123,925 while unrestricted net assets of the Storm Water Fund amounted to \$236,115 at year end. The Water Fund decreased net assets by \$48,907 and the Sewer Fund increased net assets by \$710,222 during the current fiscal year. The Storm Water Fund decreased in net assets in the amount of \$429,145 during the current fiscal year. Major factors concerning the activities of these funds have already been addressed in the discussion of the City's business-type activities above.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were substantial. The increase in budgeted revenues of \$248,387 and increase in budgeted expenditures of \$204,387 can be briefly summarized as follows:

- An increase in state revenue sharing due to the 2004 Special Census added \$230,220 to total revenues. Increases in investment earnings and charges for services accounted for most of the other increases.
- The Police and Fire department budgets were increased a total of \$111,200 due to added police overtime and supply costs.
- Minor adjustments to the Council, Elections, Clerks Office, Planning and Engineering budgets contributed to the increased amended budget expenditures.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$61,974,675 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$5,249,500 or 9% which represents decreases in governmental activities of \$338,074 or .05%, and an increase in business-type activities of \$5,587,574 or 9%.

Major capital asset events during the current fiscal year included the following:

- The Water Plant construction project.
- Vehicle and equipment purchases.
- Contributed streets and the associated land.
- Other land and building additions.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

City of New Baltimore's Capital Assets (net of depreciation)

| | Governmental Activities | Business-Type Activities | Total |
|----------------------------|------------------------------------|-------------------------------------|----------------------|
| Land | \$ 4,687,953 | \$ 1,039,105 | \$ 5,727,058 |
| Construction in process | - | 13,315,641 | 13,315,641 |
| Land improvements | 403,259 | 91,800 | 495,059 |
| Buildings and improvements | 521,470 | 7,035,946 | 7,557,416 |
| Vehicles and equipment | 600,351 | 376,609 | 976,960 |
| Library books | 118,779 | - | 118,779 |
| Infrastructure and systems | 15,976,068 | 17,807,693 | 33,783,761 |
| Total | <u>\$ 22,307,880</u> | <u>\$ 39,666,794</u> | <u>\$ 61,974,674</u> |

Additional information regarding the City's capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$18,750,000. Debt consists of general obligation bonds which are backed by the full faith and credit of the City and special assessment bonds in which the City is liable in the event of default by the property owners subject to the assessment. Outstanding obligations as of the end of the fiscal year are as follow:

City of New Baltimore's Outstanding Debt

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------|------------------------------------|-------------------------------------|----------------------|
| General obligation bonds | <u>\$ 18,750,000</u> | <u>\$ -</u> | <u>\$ 18,750,000</u> |

The City's total debt decreased by \$469,000 during the current fiscal year. The total decrease in debt was attributable to the City's governmental activities.

Additional information concerning the City's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Increase in property tax revenue due to community growth and property appreciation.
- An increase in state shared revenues due to the special census of 2004.
- Contractual wage increases, an increase in pension contributions and rising health care costs.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the City of New Baltimore's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, 36535 Green Street, New Baltimore, Michigan 48047.

* * * * *

BASIC FINANCIAL STATEMENTS

CITY OF NEW BALTIMORE, MICHIGAN

STATEMENT OF NET ASSETS

June 30, 2007

| | Governmental Activities | Business-type Activities | Total | Component Units |
|--|----------------------------|-----------------------------|----------------------|--------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 4,416,971 | \$ 4,520,634 | \$ 8,937,605 | \$ 688,286 |
| Investments | 3,987,011 | 1,021,742 | 5,008,753 | - |
| Receivables (net) | 512,707 | 747,128 | 1,259,835 | 1,614 |
| Internal balances | (790,365) | 790,365 | - | - |
| Inventory | 23,982 | 73,112 | 97,094 | - |
| Prepaid items and other assets | 377,859 | 124,385 | 502,244 | - |
| Restricted assets: | | | | |
| Cash and cash equivalents | - | 2,559,917 | 2,559,917 | - |
| Capital assets: | | | | |
| Assets not being depreciated | 4,687,953 | 14,354,746 | 19,042,699 | - |
| Assets being depreciated, net | 17,619,927 | 25,312,048 | 42,931,975 | 285,414 |
| Total assets | 30,836,045 | 49,504,077 | 80,340,122 | 975,314 |
| Liabilities | | | | |
| Accounts payable | 215,921 | 1,609,967 | 1,825,888 | - |
| Accrued liabilities | 507,752 | 13,014 | 520,766 | 3,284 |
| Unearned revenue | 201,305 | - | 201,305 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 425,000 | - | 425,000 | 19,530 |
| Due in more than one year | 18,467,241 | 42,821 | 18,510,062 | 62,537 |
| Total liabilities | 19,817,219 | 1,665,802 | 21,483,021 | 85,351 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 3,557,880 | 39,666,794 | 43,224,674 | 203,347 |
| Restricted for: | | | | |
| Debt service | 274,883 | - | 274,883 | - |
| Highways and streets | 894,557 | - | 894,557 | - |
| Public safety | 247,902 | - | 247,902 | - |
| Recreation and culture | 758,370 | - | 758,370 | - |
| Perpetual care: | | | | |
| Unexpendable | 200,000 | - | 200,000 | - |
| Other purposes | 2,330,852 | 2,328,942 | 4,659,794 | - |
| Unrestricted | 2,754,382 | 5,842,539 | 8,596,921 | 686,616 |
| Total net assets | \$ 11,018,826 | \$ 47,838,275 | \$ 58,857,101 | \$ 889,963 |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

| Functions / Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|---------------------------------------|---------------|-------------------------|--|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 1,465,266 | \$ 433,468 | \$ 6,053 | \$ - | \$ (1,025,745) |
| Public safety | 2,912,127 | 291,517 | 10,234 | - | (2,610,376) |
| Public works | 764,252 | 459,030 | - | - | (305,222) |
| Highways and streets | 1,379,274 | 26,520 | 577,988 | 46,404 | (728,362) |
| Community and economic development | 229,468 | - | - | - | (229,468) |
| Recreation and culture | 1,091,951 | 100,736 | 34,551 | - | (956,664) |
| Interest on long-term debt | 851,152 | - | - | - | (851,152) |
| Total governmental activities | 8,693,490 | 1,311,271 | 628,826 | 46,404 | (6,706,989) |
| Business-type activities | | | | | |
| Water | 1,516,456 | 1,151,561 | - | 36,000 | (328,895) |
| Sewer | 1,470,063 | 1,507,491 | - | 482,541 | 519,969 |
| Storm water | 453,835 | 155,501 | - | - | (298,334) |
| Total business-type activities | 3,440,354 | 2,814,553 | - | 518,541 | (107,260) |
| Total primary government | \$ 12,133,844 | \$ 4,125,824 | \$ 628,826 | \$ 564,945 | \$ (6,814,249) |
| Component units | | | | | |
| Downtown development authority | \$ 64,185 | \$ - | \$ - | \$ - | \$ (64,185) |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
Year Ended June 30, 2007

| | Primary Government | | | Component Units |
|---|------------------------------------|-------------------------------------|----------------------|----------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Changes in net assets | | | | |
| Net (expense) revenue | \$ (6,706,989) | \$ (107,260) | \$ (6,814,249) | \$ (64,185) |
| General revenues: | | | | |
| Property taxes | 4,160,222 | - | 4,160,222 | 156,381 |
| Property taxes for debt service | 1,177,698 | - | 1,177,698 | - |
| Property taxes for library | 569,640 | - | 569,640 | - |
| State shared revenue | 856,874 | - | 856,874 | - |
| Unrestricted investment earnings | 510,829 | 500,943 | 1,011,772 | 22,137 |
| Insurance recoveries | 947 | 1,900 | 2,847 | - |
| Gain from sale of fixed assets | 5,101 | - | 5,101 | - |
| Other revenue | 8,548 | - | 8,548 | 77,250 |
| Transfers - internal activities | 147,643 | (147,643) | - | - |
| Total general revenues and transfers | 7,437,502 | 355,200 | 7,792,702 | 255,768 |
| Change in net assets | 730,513 | 247,940 | 978,453 | 191,583 |
| Net assets, beginning of year | 10,288,313 | 47,590,335 | 57,878,648 | 698,380 |
| Net assets, end of year | \$ 11,018,826 | \$ 47,838,275 | \$ 58,857,101 | \$ 889,963 |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2007

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------------|---|---|
| Assets | | | |
| Cash and cash equivalents | \$ 896,163 | \$ 2,629,196 | \$ 3,525,359 |
| Investments | 1,251,052 | 2,026,626 | 3,277,678 |
| Receivables: | | | |
| Accounts receivable (net) | 122,779 | - | 122,779 |
| Taxes-delinquent | 54,144 | 16,177 | 70,321 |
| Interest and dividends | 1,229 | 17,416 | 18,645 |
| Due from other funds | 56,588 | - | 56,588 |
| Due from other governments | 210,947 | 94,324 | 305,271 |
| Prepaid expenditures | 35,939 | 5,289 | 41,228 |
| Total assets | <u>\$2,628,841</u> | <u>\$ 4,789,028</u> | <u>\$ 7,417,869</u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 131,852 | \$ 46,649 | \$ 178,501 |
| Due to other funds | - | 56,588 | 56,588 |
| Due to other governments | 18,227 | 4,900 | 23,127 |
| Accrued liabilities | 263,117 | 7,987 | 271,104 |
| Deferred revenue | 255,476 | 15,520 | 270,996 |
| Advances from other funds | 307,866 | - | 307,866 |
| Total liabilities | <u>976,538</u> | <u>131,644</u> | <u>1,108,182</u> |
| Fund balances | | | |
| Reserved for: | | | |
| Debt service | - | 274,883 | 274,883 |
| Prepaid expenditures | 35,939 | 5,289 | 41,228 |
| Perpetual care | - | 200,000 | 200,000 |
| Unreserved, undesignated for: | | | |
| General fund | 1,616,364 | - | 1,616,364 |
| Special revenue funds | - | 4,177,212 | 4,177,212 |
| Total fund balances | <u>1,652,303</u> | <u>4,657,384</u> | <u>6,309,687</u> |
| Total liabilities and fund balances | <u>\$2,628,841</u> | <u>\$ 4,789,028</u> | <u>\$ 7,417,869</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
Year Ended June 30, 2007

| | |
|--|--------------|
| Fund balances - total governmental funds | \$ 6,309,687 |
|--|--------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|----------------------------------|--------------|
| Add: capital assets | 31,828,093 |
| Deduct: accumulated depreciation | (10,122,157) |

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus a

| | |
|------------------------|--------|
| Add: deferred revenues | 69,691 |
|------------------------|--------|

Internal service funds are used by management to charge the costs of certain equipment usage, public service department and retiree health care costs to individual funds. A portion of the assets and liabilities of the internal service funds are included i

| | |
|---|-----------|
| Add: net assets of governmental activities accounted for in the internal service funds | 1,689,498 |
|---|-----------|

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

| | |
|--|--------------|
| Add: deferred bond charges | 319,695 |
| Deduct: accrued interest | (221,513) |
| Deduct: current portion of bonds payable | (425,000) |
| Deduct: bonds payable | (18,325,000) |
| Deduct: compensated absences | (104,168) |

| | |
|--|------------------------------------|
| Net assets of governmental activities | <u><u>\$ 11,018,826</u></u> |
|--|------------------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|---|---|
| Revenues | | | |
| Property taxes | \$ 4,210,786 | \$ 1,747,338 | \$ 5,958,124 |
| Licenses and permits | 139,230 | 188,669 | 327,899 |
| Intergovernmental | 871,400 | 587,625 | 1,459,025 |
| Charges for services | 846,329 | 58,986 | 905,315 |
| Fines and forfeitures | 34,035 | 28,106 | 62,141 |
| Contributions | - | 69,329 | 69,329 |
| Investment earnings | 203,005 | 213,443 | 416,448 |
| Other | 10,851 | 14,840 | 25,691 |
| Total revenues | <u>6,315,636</u> | <u>2,908,336</u> | <u>9,223,972</u> |
| Expenditures | | | |
| Current: | | | |
| General government | 1,514,737 | 113,208 | 1,627,945 |
| Public safety | 2,666,924 | 289,763 | 2,956,687 |
| Public works | 708,654 | - | 708,654 |
| Highways and streets | - | 548,045 | 548,045 |
| Recreation and culture | 593,903 | 456,868 | 1,050,771 |
| Other functions | 130,716 | - | 130,716 |
| Debt service | | | |
| Principal | - | 658,000 | 658,000 |
| Interest and fees | - | 817,559 | 817,559 |
| Capital outlay | - | 647,985 | 647,985 |
| Total expenditures | <u>5,614,934</u> | <u>3,531,428</u> | <u>9,146,362</u> |
| Revenues over (under) expenditures | <u>700,702</u> | <u>(623,092)</u> | <u>77,610</u> |
| Other financing sources (uses) | | | |
| Transfers in | - | 930,305 | 930,305 |
| Transfers out | (691,433) | (232,900) | (924,333) |
| Insurance proceeds | 947 | - | 947 |
| Proceeds from the sale of capital assets | 5,101 | | 5,101 |
| Total other financing sources (uses) | <u>(685,385)</u> | <u>697,405</u> | <u>12,020</u> |
| Net change in fund balances | 15,317 | 74,313 | 89,630 |
| Fund balances, beginning of year | <u>1,636,986</u> | <u>4,583,071</u> | <u>6,220,057</u> |
| Fund balances, end of year | <u><u>\$ 1,652,303</u></u> | <u><u>\$ 4,657,384</u></u> | <u><u>\$ 6,309,687</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2007

| | |
|--|-----------|
| Net change in fund balances - total governmental funds | \$ 89,630 |
|--|-----------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|------------------------------|-------------|
| Add: capital outlay | 873,099 |
| Deduct: depreciation expense | (1,129,004) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

| | |
|--|----------|
| Deduct: net difference in deferred revenue | (50,564) |
|--|----------|

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but

| | |
|--|---------|
| Add: principal payments on long-term liabilities | 658,000 |
|--|---------|

Internal service funds are used by management to charge the costs of certain equipment, public service department and retiree health care costs to individual funds. The net revenue attributable to those funds are reported with governmental activities in

| | |
|--|---------|
| Add: net operating income from governmental activities in the internal service funds | 54,327 |
| Add: net transfers reported in the internal service funds | 141,671 |
| Add: non-operating revenues reported in the internal service funds | 94,381 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|---|----------|
| Deduct: increase in accrued interest expense | (33,587) |
| Add: decrease in the accrual for compensated absences | 32,560 |

| | |
|--|--------------------------|
| Change in net assets of governmental activities | <u>\$ 730,513</u> |
|--|--------------------------|

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
GENERAL FUND
Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--------------------------|-------------------------|------------------|------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Property taxes | \$ 4,167,707 | \$ 4,167,707 | \$ 4,210,786 | \$ 43,079 |
| Licenses and permits | 154,778 | 154,778 | 139,230 | (15,548) |
| Intergovernmental: | | | | |
| Federal grants | - | - | 6,308 | 6,308 |
| State grants | 635,484 | 865,704 | 865,092 | (612) |
| Charges for services | 744,304 | 762,471 | 846,329 | 83,858 |
| Fines and forfeitures | 57,350 | 57,350 | 34,035 | (23,315) |
| Investment earnings | 60,000 | 60,000 | 203,005 | 143,005 |
| Other | 18,806 | 18,806 | 10,851 | (7,955) |
| Total revenues | <u>5,838,429</u> | <u>6,086,816</u> | <u>6,315,636</u> | <u>228,820</u> |
| Expenditures | | | | |
| General government: | | | | |
| Council | 72,423 | 78,039 | 77,857 | 182 |
| Mayor | 173,361 | 175,340 | 174,105 | 1,235 |
| Elections | 88,781 | 94,481 | 91,324 | 3,157 |
| Assessor | 113,765 | 113,765 | 129,812 | (16,047) |
| Attorney | 190,000 | 190,000 | 131,587 | 58,413 |
| Clerk | 514,616 | 554,616 | 561,113 | (6,497) |
| Board of review | 1,700 | 1,700 | 1,903 | (203) |
| Treasurer | 94,838 | 95,838 | 91,226 | 4,612 |
| Building and grounds | 118,463 | 118,463 | 81,341 | 37,122 |
| Planning | 71,376 | 83,376 | 71,865 | 11,511 |
| Engineering | 94,622 | 94,622 | 102,604 | (7,982) |
| Total general government | <u>1,533,945</u> | <u>1,600,240</u> | <u>1,514,737</u> | <u>85,503</u> |
| Public safety: | | | | |
| Police | 2,060,826 | 2,161,646 | 2,275,898 | (114,252) |
| Fire | 358,818 | 369,218 | 381,525 | (12,307) |
| Crossing guards | 13,946 | 13,946 | 9,501 | 4,445 |
| Total public safety | <u>2,433,590</u> | <u>2,544,810</u> | <u>2,666,924</u> | <u>(122,114)</u> |

Continued.....

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
GENERAL FUND
Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Concluded | | | | |
| Public works: | | | | |
| Street lighting | \$ 162,000 | \$ 162,000 | \$ 162,356 | \$ (356) |
| Sidewalk and trail construction | 21,875 | 21,875 | 26,868 | (4,993) |
| Rubbish and garbage collection | 448,889 | 448,889 | 492,543 | (43,654) |
| Community tree program | 37,450 | 42,450 | 26,887 | 15,563 |
| Total public works | 670,214 | 675,214 | 708,654 | (33,440) |
| Recreation and culture: | | | | |
| Parks and recreation | 619,084 | 640,956 | 593,903 | 47,053 |
| Other functions: | | | | |
| Community promotion | 110,974 | 110,974 | 130,716 | (19,742) |
| Other expenditures | - | - | - | - |
| Total other expenditures | 110,974 | 110,974 | 130,716 | (19,742) |
| Total expenditures | 5,367,807 | 5,572,194 | 5,614,934 | (42,740) |
| Revenues over (under) expenditures | 470,622 | 514,622 | 700,702 | 186,080 |
| Other financing sources (uses) | | | | |
| Transfers out | (414,172) | (458,172) | (691,433) | 233,261 |
| Insurance proceeds | - | - | 947 | 947 |
| Proceeds from sale of capital assets | | | 5,101 | |
| Total other financing (uses) | (414,172) | (458,172) | (685,385) | 234,208 |
| Net change in fund balances | 56,450 | 56,450 | 15,317 | (41,133) |
| Fund balance, beginning of year | 1,636,986 | 1,636,986 | 1,636,986 | - |
| Fund balance, end of year | \$ 1,693,436 | \$ 1,693,436 | \$ 1,652,303 | \$ (41,133) |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Net Assets PROPRIETARY FUNDS Year Ended June 30, 2007

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|---|---------------|--------------|----------------------|-------------------------|
| | Major Funds | | Other Fund | | Internal Service Funds |
| | Water | Sewer | Storm Water | Total | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,042,400 | \$ 3,304,455 | \$ 173,779 | \$ 4,520,634 | \$ 891,612 |
| Investments | - | 998,907 | 22,835 | 1,021,742 | 709,333 |
| Accounts receivable | 251,748 | 437,400 | - | 689,148 | - |
| Interest receivable | 5,858 | 12,621 | 686 | 19,165 | 2,341 |
| Due from other funds | - | 290,327 | - | 290,327 | - |
| Due from other governments | - | - | 38,815 | 38,815 | (6,650) |
| Inventories | 73,112 | - | - | 73,112 | 23,982 |
| Advances to other funds | 19,242 | - | - | 19,242 | - |
| Prepaid expenses | 117,386 | 6,999 | - | 124,385 | 16,936 |
| Total current assets | 1,509,746 | 5,050,709 | 236,115 | 6,796,570 | 1,637,554 |
| Noncurrent assets: | | | | | |
| Restricted cash and cash equivalents | 2,559,917 | - | - | 2,559,917 | - |
| Advances to other funds | 134,691 | 153,933 | - | 288,624 | - |
| Capital assets, net of accumulated depreciation | 23,385,877 | 13,649,810 | 2,631,107 | 39,666,794 | 601,944 |
| Total noncurrent assets | 26,080,485 | 13,803,743 | 2,631,107 | 42,515,335 | 601,944 |
| Total assets | 27,590,231 | 18,854,452 | 2,867,222 | 49,311,905 | 2,239,498 |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 1,556,699 | 53,268 | - | 1,609,967 | 14,293 |
| Due to other funds | 290,327 | - | - | 290,327 | - |
| Accrued liabilities | 8,775 | 4,239 | - | 13,014 | 15,135 |
| Total current liabilities | 1,855,801 | 57,507 | - | 1,913,308 | 29,428 |
| Long-term liabilities: | | | | | |
| Accrued compensated absences | 19,611 | 23,210 | - | 42,821 | 38,073 |
| Total liabilities | 1,875,412 | 80,717 | - | 1,956,129 | 67,501 |
| Net Assets | | | | | |
| Investment in capital assets | 23,385,877 | 13,649,810 | 2,631,107 | 39,666,794 | 601,944 |
| Restricted for capital projects | 2,328,942 | - | - | 2,328,942 | - |
| Unrestricted | - | 5,123,925 | 236,115 | 5,360,040 | 1,570,053 |
| Total net assets | \$ 25,714,819 | \$ 18,773,735 | \$ 2,867,222 | 47,355,776 | \$ 2,171,997 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | 482,499 | |
| Net assets of business type activities | | | | <u>\$ 47,838,275</u> | |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
PROPRIETARY FUNDS
Year Ended June 30, 2007

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|--|----------------------|---------------------|-------------------|--------------------------------|
| | Major Funds | | Other Fund | | |
| | Water | Sewer | Storm Water | Total | Internal Service Funds |
| Operating revenues | | | | | |
| Charges for services | \$ 1,147,806 | \$ 1,498,408 | \$ 140,556 | \$ 2,786,770 | \$ 1,258,086 |
| Contributions | - | - | - | - | 158,780 |
| Miscellaneous income | 3,755 | 9,083 | 14,945 | 27,783 | 2,523 |
| Total operating revenues | 1,151,561 | 1,507,491 | 155,501 | 2,814,553 | 1,419,389 |
| Operating expenses | | | | | |
| General and administrative | 187,382 | 221,429 | 69,980 | 478,791 | - |
| Plant operation | 580,230 | 564,669 | - | 1,144,899 | - |
| System network | 495,923 | 232,324 | 307,233 | 1,035,480 | - |
| Services | - | - | - | - | 1,229,202 |
| Depreciation | 260,877 | 458,027 | 78,050 | 796,954 | 120,090 |
| Total operating expenses | 1,524,412 | 1,476,449 | 455,263 | 3,456,124 | 1,349,292 |
| Operating (loss) income | (372,851) | 31,042 | (299,762) | (641,571) | 70,097 |
| Non-operating revenues | | | | | |
| Interest income | 287,944 | 194,739 | 18,260 | 500,943 | 51,819 |
| Insurance proceeds | - | 1,900 | - | 1,900 | - |
| Appreciation in fair value of investments | - | - | - | - | 42,562 |
| Total non-operating revenues | 287,944 | 196,639 | 18,260 | 502,843 | 94,381 |
| Income before contributions and transfers | (84,907) | 227,681 | (281,502) | (138,728) | 164,478 |
| Intergovernmental capital contributions: | | | | | |
| Federal grants | 36,000 | - | - | 36,000 | - |
| State grant | - | 482,541 | - | 482,541 | - |
| Transfers in | - | - | 2,357 | 2,357 | 141,671 |
| Transfers out | - | - | (150,000) | (150,000) | - |
| Change in net assets | (48,907) | 710,222 | (429,145) | 232,170 | 306,149 |
| Net assets, beginning of year | 25,763,726 | 18,063,513 | 3,296,367 | | 1,865,848 |
| Net assets, end of year | \$ 25,714,819 | \$ 18,773,735 | \$ 2,867,222 | | \$ 2,171,997 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | | 15,770 | |
| Change in net assets of business-type activities | | | | \$ 247,940 | |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

**Statement of Cash Flows
PROPRIETARY FUNDS
Year Ended June 30, 2007**

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|--|---------------------|--------------------|---------------------|--------------------------------|
| | Major Funds | | | | Internal Service Funds |
| | Water | Sewer | Storm Water | Total | |
| Cash flows from operating activities | | | | | |
| Cash received from customers and others | \$ 1,119,985 | \$ 1,086,432 | \$ 155,501 | \$ 2,361,918 | \$ - |
| Cash received from interfund services | - | - | - | - | 1,638,656 |
| Cash payments to employees | (333,667) | (224,727) | - | (558,394) | (216,800) |
| Cash payments to suppliers for goods and services | (166,563) | (770,733) | (356,763) | (1,294,059) | (1,012,714) |
| Cash payments for interfund services | (139,469) | (76,679) | (37,680) | (253,828) | - |
| Net cash provided (used) by operating activities | 480,286 | 14,293 | (238,942) | 255,637 | 409,142 |
| Cash flows from noncapital financing activities | | | | | |
| Bonds payable | - | - | - | - | - |
| Advances to other funds | 9,621 | (9,621) | - | - | - |
| Transfers from other funds | - | - | 2,357 | 2,357 | 141,671 |
| Transfers to other funds | - | - | (150,000) | (150,000) | - |
| Net cash provided (used) by noncapital financing activities | 9,621 | (9,621) | (147,643) | (147,643) | 141,671 |
| Cash flows from capital and related financing activities | | | | | |
| Purchase of capital assets | (5,762,046) | (387,247) | (235,235) | (6,384,528) | (37,918) |
| Proceeds from insurance recoveries | - | 1,900 | - | 1,900 | - |
| Subsidy from intergovernmental grants | 36,000 | 482,541 | - | 518,541 | - |
| Net cash (used) by capital and related financing activities | (5,726,046) | 97,194 | (235,235) | (5,864,087) | (37,918) |
| Cash flows from investing activities | | | | | |
| Purchases of investments | - | - | - | - | - |
| Proceeds from sale of investments | 5,409,119 | 1,229,119 | 511,511 | 7,149,749 | 87,437 |
| Proceeds from interfund loan payments | - | 19,242 | - | 19,242 | - |
| Investment income | 332,758 | 208,845 | 20,580 | 562,183 | 94,053 |
| Net cash provided (used) by investing activities | 5,741,877 | 1,457,206 | 532,091 | 7,731,174 | 181,490 |
| Net increase (decrease) in cash and cash equivalents | 505,738 | 1,559,072 | (89,729) | 1,975,081 | 694,385 |
| Cash and cash equivalents, beginning of year | 3,096,579 | 1,745,383 | 263,508 | 5,105,470 | 197,227 |
| Cash and cash equivalents, end of year | \$ 3,602,317 | \$ 3,304,455 | \$ 173,779 | \$ 7,080,551 | \$ 891,612 |

Continued...

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Cash Flows (Concluded)

PROPRIETARY FUNDS

Year Ended June 30, 2007

| Concluded | Business-type Activities - Enterprise Funds | | | | Governmental Activities |
|---|---|------------------|---------------------|-------------------|-------------------------|
| | Major Funds | | Other Fund | Total | Internal Service Funds |
| | Water | Sewer | Storm Water | | |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | | | |
| Operating income (loss) | \$ (372,851) | \$ 31,042 | \$ (299,762) | \$ (641,571) | \$ 70,097 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Depreciation | 260,877 | 458,027 | 78,050 | 796,954 | 120,090 |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable - customers | (48,859) | (144,682) | - | (193,541) | - |
| Due from other funds | 17,283 | (276,377) | - | (259,094) | 233,335 |
| Due to other governments | - | - | - | - | 6,978 |
| Inventories | (2,821) | - | - | (2,821) | (3,811) |
| Prepaid items | 2,759 | (26) | 16 | 2,749 | 11,718 |
| Accounts payable | 379,832 | (16,072) | (1,852) | 361,908 | 9,137 |
| Due to other funds | 259,977 | (21,946) | (15,394) | 222,637 | (14,068) |
| Accrued liabilities | (6,395) | (13,402) | - | (19,797) | (11,847) |
| Accrued compensated absences | (9,516) | (2,271) | - | (11,787) | (12,487) |
| Net cash provided (used) by operating activities | <u>\$ 480,286</u> | <u>\$ 14,293</u> | <u>\$ (238,942)</u> | <u>\$ 255,637</u> | <u>\$ 409,142</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Fiduciary Net Assets

FUDICIARY FUNDS

June 30, 2007

| | Pension Trust |
|------------------------------------|----------------------------|
| Assets | |
| Stock mutual funds | <u>\$ 7,823,997</u> |
| Liabilities | |
| Accounts payable | <u>17,500</u> |
| Net assets | |
| Held in trust for pension benefits | <u><u>\$ 7,806,497</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2007

| | Pension Trust |
|--|----------------------------|
| Additions | |
| Contributions | |
| Employer contributions | \$ 348,275 |
| Employee contributions | 149,403 |
| Total contributions | <u>497,678</u> |
| Investment income | |
| Net appreciation in fair value | <u>809,286</u> |
| Total additions | <u>1,306,964</u> |
| Deductions | |
| Benefits | 246,067 |
| Administrative expense: | <u>6,800</u> |
| Total deductions | <u>252,867</u> |
| Net increase in plan net assets | 1,054,097 |
| Net assets held in trust for pension benefits - beginning of yea | <u>6,752,400</u> |
| Net assets held in trust for pension benefits - end of year | <u>\$ 7,806,497</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Combining Statement of Net Assets - Component Units

June 30, 2007

| | Downtown Development Authority | Economic Development Corporation | Local Development Financing Authority | Total |
|--|---|---|--|-------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 161,320 | \$ 15,775 | \$ 511,191 | \$ 688,286 |
| Receivables, net | - | - | 1,614 | 1,614 |
| Capital assets: | | | | |
| Depreciable, net | 285,414 | - | - | 285,414 |
| Total assets | 446,734 | 15,775 | 512,805 | 975,314 |
| Liabilities | | | | |
| Accrued liabilities | 3,284 | - | - | 3,284 |
| Long-term liabilities: | | | | |
| Due within one year | 19,530 | - | - | 19,530 |
| Due in more than one year | 62,537 | - | - | 62,537 |
| Total liabilities | 85,351 | - | - | 85,351 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 203,347 | - | - | 203,347 |
| Unrestricted | 158,036 | 15,775 | 512,805 | 686,616 |
| Total net assets | \$ 361,383 | \$ 15,775 | \$ 512,805 | \$ 889,963 |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Activities - Component Units
Year Ended June 30, 2007

| | <u>Downtown Development Authority</u> | <u>Economic Development Corporation</u> | <u>Local Development Financing Authority</u> | <u>Total</u> |
|------------------------------------|--|--|---|---------------------------------|
| Expenses | | | | |
| Community and economic development | <u>\$ 64,185</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 64,185</u> |
| General revenues | | | | |
| Property taxes | 59,695 | - | 96,686 | 156,381 |
| Other revenue | 77,250 | - | - | 77,250 |
| Unrestricted investment earnings | <u>420</u> | <u>420</u> | <u>21,297</u> | <u>22,137</u> |
| Total general revenues | <u>137,365</u> | <u>420</u> | <u>117,983</u> | <u>255,768</u> |
| Change in net assets | 73,180 | 420 | 117,983 | 191,583 |
| Net assets, beginning of year | <u>288,203</u> | <u>15,355</u> | <u>394,822</u> | <u>698,380</u> |
| Net assets, end of year | <u><u>\$ 361,383</u></u> | <u><u>\$ 15,775</u></u> | <u><u>\$ 512,805</u></u> | <u><u>\$ 889,963</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The accompanying financial statements present the activities of the City of New Baltimore, Michigan (the “City” or “government”) and its three component units, which are legally separate organizations for which the City is financially accountable. These discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The component units all have June 30th year-ends.

| Component Unit | <u>Included in the Reporting Entity Because</u> | <u>Separate Financial Statements Available</u> |
|--|--|---|
| Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation, and promotes economic growth within the downtown district. | City Mayor and Council approve DDA Board. | Not prepared |
| Economic Development Corporation (EDC); provides means and methods for the encouragement of industrial and commercial enterprises in relocating, purchasing, constructing or improving sites within the City. | City Mayor and Council approve EDC board and annual budget. | Not prepared |
| Local Development Finance Authority (LDFA); prevents conditions of unemployment and promotes economic growth by providing those public improvements necessary to promote and sustain industrial development within the established district. | City Mayor and Council approve LDFA board and annual budget. | Not prepared |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1-B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental fund:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Water fund. This fund accounts for the activities of the City's water treatment and distribution systems.

Sewer fund. This fund accounts for the activities of the City's sewage disposal and treatment systems.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on the City's long-term obligation bonds of governmental funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. These include vehicles and equipment maintenance, the department of public services and the retiree health care funds.

Pension trust fund. This fund accounts for the activities of the City of New Baltimore Employees Retirement System, which accumulates resources for retirement benefit payments to qualified employees.

Agency fund. This fund account for assets held for other governments in an agency capacity (tax collections).

1-C. Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end or within one year for reimbursement-based grants. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1-D. Assets, Liabilities and Equity

Deposits and Investments

The City maintains separate cash accounts for each of the City's funds and the cash accounts are displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as internal balances.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual or predefined group cost of more than \$35,000 for infrastructure assets and \$5,000 for all other capital assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--|---------------------|
| Land improvements | 20-50 |
| Buildings and building improvements | 20-50 |
| Public domain infrastructure | 20-50 |
| Water and wastewater system infrastructure | 50 |
| Vehicles and equipment | 5-25 |
| Library books | 5 |

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and leave time benefits, subject to certain limitations. All sick and leave pay is accrued at 100% in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the activity level for the general fund and fund level for the special revenue funds.

The City Council requires management to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. Management is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuation.

2-B. Excess of Expenditures over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2007, the City incurred expenditures in excess of the amounts appropriated as follows:

| GENERAL FUND | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------------------|--------------------------------|----------------------|------------------------|
| General government | | | |
| Assessor | \$ 113,765 | \$ 129,812 | \$ (16,047) |
| Clerk | 554,616 | 561,113 | (6,497) |
| Board of review | 1,700 | 1,903 | (203) |
| Engineering | 94,622 | 102,604 | (7,982) |
| Public safety | | | |
| Police | 2,161,646 | 2,275,898 | (114,252) |
| Fire | 369,218 | 381,525 | (12,307) |
| Public works | | | |
| Street lighting | 162,000 | 162,356 | (356) |
| Sidewalk and trail construction | 21,875 | 26,868 | (4,993) |
| Rubbish and garbage collection | 448,889 | 492,543 | (43,654) |
| Other functions | | | |
| Community promotion | 110,974 | 130,716 | (19,742) |
| Transfers out | 458,172 | 441,433 | (16,739) |
| SPECIAL REVENUE FUNDS | | | |
| Cemetery operating fund | 56,603 | 112,921 | (112,921) |
| Building inspection | 267,782 | 287,531 | (19,749) |
| Drug law enforcement | 15,000 | 2,232 | (732) |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

2-C – Deficit Fund Balance

The City carried a deficit in fund balance for the 1996 St. Clair Drive Special Assessment debt service fund in the amount of \$49,180 at June 30, 2007. This fund is included and reported as a nonmajor governmental fund for reporting purposes.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

3-A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2007:

| | <u>Primary Government</u> | <u>Component Units</u> | <u>Total</u> |
|---|-------------------------------|----------------------------|-----------------------------|
| Statement of Net Assets | | | |
| Cash and cash equivalents | \$ 8,934,605 | \$688,286 | \$ 9,622,891 |
| Investments | 5,008,753 | - | 5,008,753 |
| Restricted cash and cash equivalents | 2,559,917 | - | 2,559,917 |
| Statement of Fiduciary Net Assets | | | |
| Investments | <u>7,823,997</u> | <u>-</u> | <u>7,823,997</u> |
| Total | <u>\$ 24,327,272</u> | <u>\$688,286</u> | <u>\$ 25,015,558</u> |
| Deposits and Investments | | | |
| Bank deposits (checking accounts, savings accounts and CDs) | | | \$ 11,360,118 |
| Investments in mutual funds and similar vehicles | | | 13,646,216 |
| Cash held by fiscal agent | | | <u>9,224</u> |
| Total | | | <u>\$ 25,015,558</u> |

Statutory Authority

The City is authorized by statute to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

Deposits and investments

The City chooses to disclose its investments by specifically identifying each. As of June 30, 2007 the City had the following investments.

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> |
|-------------------------------|-----------------|----------------------------|---------------|
| Mutual and money market funds | N/A | \$10,348,722 | Unrated |
| MBIA Michigan CLASS pool | N/A | <u>3,297,494</u> | AAA/V1+ |
| | | <u>\$13,646,216</u> | |

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific investment types as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$10,975,550 of the City's bank balance of \$11,775,550 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. There is no custodial credit risk on the mutual or money market fund investments, as these investments are uncategorized as to credit risk. There is no custodial credit risk on the MBIA CLASS pool investments because the City is invested in the pool and not the securities that make up the pool.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The investments listed above represent the City's total investments. All investments held at year end are reported above. Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

3-B. Receivables

Receivables in the governmental activities are 58.4 percent due from other governments, 23.8 percent accounts receivables, 13.7 percent taxes receivable, and 4.1 percent accrued interest. Business-type activities receivables are 92.2 percent accounts receivable, 5.2 percent due from other governments and 2.6 percent accrued interest.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

| | <u>Unavailable</u> | <u>Unearned</u> |
|------------------------------------|--------------------|-------------------|
| Cable franchise fees received | \$ - | \$ 146,528 |
| Inspection and other fees received | - | 54,777 |
| Property taxes receivable | <u>69,691</u> | <u>-</u> |
| Total | <u>\$ 69,691</u> | <u>\$ 201,305</u> |

3-C. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

Primary government

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------------|--------------------|--------------------|----------------------------|
| Governmental activities | | | | | |
| Capital assets, not being depreciated - | | | | | |
| Land | \$ 4,687,953 | \$ - | \$ - | \$ - | \$ 4,687,953 |
| Construction in progress | <u>206,967</u> | <u>-</u> | <u>-</u> | <u>(206,967)</u> | <u>-</u> |
| Total capital assets not being depreciated | <u>4,894,920</u> | <u>-</u> | <u>-</u> | <u>(206,967)</u> | <u>4,687,953</u> |
| Capital assets being depreciated: | | | | | |
| Land improvements | 1,056,699 | 41,778 | - | 5,280 | 1,103,757 |
| Buildings | 1,186,450 | - | - | - | 1,186,450 |
| Vehicles and equipment | 2,546,051 | 141,024 | - | - | 2,687,075 |
| Library books | 300,471 | 53,337 | (87,011) | - | 266,797 |
| Infrastructure | <u>22,527,741</u> | <u>674,882</u> | <u>-</u> | <u>201,687</u> | <u>23,404,310</u> |
| Total capital assets being depreciated | <u>27,617,412</u> | <u>911,021</u> | <u>(87,011)</u> | <u>206,967</u> | <u>28,648,389</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (651,889) | (48,213) | - | (396) | (700,498) |
| Buildings | (639,563) | (25,417) | - | - | (664,980) |
| Vehicles and equipment | (1,925,571) | (161,153) | - | - | (2,086,724) |
| Library books | (171,788) | (63,241) | 87,011 | - | (148,018) |
| Infrastructure | <u>(6,477,568)</u> | <u>(951,070)</u> | <u>-</u> | <u>396</u> | <u>(7,428,242)</u> |
| Total accumulated depreciation | <u>(9,866,379)</u> | <u>(1,249,094)</u> | <u>87,011</u> | <u>-</u> | <u>(11,028,462)</u> |
| Total capital assets being depreciated, net | <u>17,751,033</u> | <u>(338,073)</u> | <u>-</u> | <u>206,967</u> | <u>17,619,927</u> |
| Governmental activities capital assets, net | <u>\$22,645,953</u> | <u>\$ (338,073)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$22,307,880</u> |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------------|--------------------|----------------------------|
| Business-type activities: | | | | |
| Capital assets, not being depreciated - | | | | |
| Land | \$ 1,039,105 | \$ - | \$ - | \$ 1,039,105 |
| Construction in progress | <u>7,553,595</u> | <u>5,762,046</u> | - | <u>13,315,641</u> |
| Total capital assets not being depreciated | <u>8,592,700</u> | <u>5,762,046</u> | - | <u>14,354,746</u> |
| Capital assets, not being depreciated - | | | | |
| Land improvements | 412,000 | - | - | 412,000 |
| Buildings | 12,279,689 | 622,478 | - | 12,902,167 |
| Equipment | 640,126 | - | - | 640,126 |
| Infrastructure | <u>25,557,941</u> | - | - | <u>25,557,941</u> |
| Total capital assets being depreciated | <u>38,889,756</u> | <u>622,478</u> | - | <u>39,512,234</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (313,500) | (6,700) | - | (320,200) |
| Buildings | (5,620,948) | (245,273) | - | (5,866,221) |
| Equipment | (234,674) | (28,843) | - | (263,517) |
| Infrastructure | <u>(7,234,110)</u> | <u>(516,138)</u> | - | <u>(7,750,248)</u> |
| Total accumulated depreciation | <u>(13,403,232)</u> | <u>(796,954)</u> | - | <u>(14,200,186)</u> |
| Total capital assets being depreciated, net | <u>25,486,524</u> | <u>(174,476)</u> | - | <u>25,312,048</u> |
| Business-type activities capital assets, net | <u>\$34,079,224</u> | <u>\$ 5,587,570</u> | <u>\$ -</u> | <u>\$39,666,794</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|---------------------------|
| Governmental activities | |
| General government | \$ 36,678 |
| Public safety | 60,394 |
| Public works | 3,618 |
| Highways and streets | 951,071 |
| Recreation and culture | 87,252 |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | <u>110,081</u> |
| Total depreciation expense - governmental activities | <u>\$1,249,094</u> |
| Business-type activities | |
| Water fund | \$ 260,877 |
| Sewer fund | 458,027 |
| Storm Water fund | <u>78,050</u> |
| | <u>\$ 796,954</u> |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 30, 2007, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|-------------------------------------|---------------------------|-------------------------|----------------------------------|
| Capital assets, being depreciated for Infrastructure | \$ 460,345 | \$ - | \$ - | \$ 460,345 |
| Less accumulated depreciation for Infrastructure | <u>(156,517)</u> | <u>(18,414)</u> | <u>-</u> | <u>(174,931)</u> |
| Component unit activity capital assets, net | <u>\$ 303,828</u> | <u>\$ (18,414)</u> | <u>\$ -</u> | <u>\$ 285,414</u> |

3-D. Interfund Receivables, Payables, Transfers and Advances

At June 30, 2007, the following schedule reports receivables and payables within the reporting entity.

| <u>Due to</u> | <u>Due From</u> | | |
|----------------------|--|--------------------------|--------------------------|
| | <u>Non-Major Governmental</u> | <u>Water</u> | <u>Total</u> |
| General Fund | \$ 56,588 | \$ - | \$ 56,588 |
| Sewer | <u>-</u> | <u>290,327</u> | <u>290,327</u> |
| Total | <u>\$ 56,588</u> | <u>\$ 290,327</u> | <u>\$ 346,915</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and service are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The Water and Sewer funds each advanced the General fund proceeds for the purchase of a new fire truck during the 2000 fiscal year. The terms of the advance call for semi-annual payments of \$9,621 for each advance, plus interest at a rate of 1% over the applicable Consumer Price Index (CPI). The advances will be fully matured in the fiscal year ending June 30, 2015. The following amounts are currently outstanding:

| <u>Advanced from</u> | <u>Advanced to General Fund</u> |
|----------------------|-------------------------------------|
| Water fund | \$ 153,933 |
| Sewer fund | <u>153,933</u> |
| Total | <u>\$ 307,866</u> |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year then ended, interfund transfers consisted of the following:

| <u>Transfer Out</u> | <u>Transfer In</u> | | | <u>Total</u> |
|---------------------------|-----------------------------------|---------------------------------|-----------------------------|---------------------------|
| | <u>Non-Major Governmental</u> | <u>Non-Major Enterprise</u> | <u>Internal Service</u> | |
| General fund | \$ 549,762 | \$ - | \$ 141,671 | \$ 691,433 |
| Non-major governmental | 230,543 | 2,357 | - | 232,900 |
| Non-major enterprise | <u>150,000</u> | <u>-</u> | <u>-</u> | <u>150,000</u> |
| Total | <u>\$ 930,305</u> | <u>\$ 2,357</u> | <u>\$ 141,671</u> | <u>\$1,074,333</u> |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

3-E. Long-term Debt

General obligation bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government was \$19,995,000 to finance the repair and/or reconstruction of infrastructure assets of the City.

| <u>General Obligations Bonds</u> | <u>Interest Rate</u> | <u>Amount</u> |
|--------------------------------------|----------------------|-----------------------------|
| Governmental activities | | |
| 1999 unlimited tax obligations | 4.0% - 5.5% | \$ 1,450,000 |
| 2001 unlimited tax obligations | 4.0% - 6.0% | 2,550,000 |
| 2002 unlimited tax obligations | 4.0% - 5.1% | 925,000 |
| 2004 water plant bond | 3.0% - 4.7% | 8,925,000 |
| 2005 water plant bond | 3.05% - 4.35% | 4,900,000 |
| Total governmental activities | | <u>\$ 18,750,000</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>Governmental Activities</u> | | |
|--------------------------------|-----------------------------|-----------------------------|
| <u>Years</u> | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 425,000 | \$ 791,281 |
| 2009 | 500,000 | 774,956 |
| 2010 | 575,000 | 755,631 |
| 2011 | 625,000 | 733,381 |
| 2012 | 675,000 | 708,575 |
| 2013-2017 | 4,150,000 | 3,090,975 |
| 2018-2022 | 4,800,000 | 2,104,375 |
| 2022-2027 | 4,000,000 | 1,155,631 |
| 2028-2030 | 3,000,000 | 211,700 |
| | <u>\$ 18,750,000</u> | <u>\$ 10,326,505</u> |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Component Unit. During prior fiscal years, the Downtown Development Authority secured a loan in the amount of \$189,772 with a fixed interest rate of 4.260% for defeasance of outstanding tax increment revenue bonds with an average interest rate of 5.5%. The transaction resulted in a reduction of future cash flows by \$35,386.

Annual debt service requirements on the component unit loan is as follows:

| <u>Year</u> | <u>Component Unit</u> | |
|-------------|-------------------------|------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 19,530 | \$ 4,245 |
| 2009 | 21,066 | 2,709 |
| 2010 | 22,849 | 1,791 |
| 2011 | <u>18,622</u> | <u>-</u> |
| | <u>\$ 82,067</u> | <u>\$ 8,745</u> |

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2006, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|--------------------|----------------------------|----------------------------|------------------------------------|
| <u>Primary Government</u> | | | | | |
| Governmental activities: | | | | | |
| General obligation bonds | \$19,150,000 | \$ - | \$ (400,000) | \$18,750,000 | \$ 425,000 |
| Special assessment bonds | 258,000 | - | (258,000) | - | - |
| Accrued compensated absences | <u>187,288</u> | <u>-</u> | <u>(45,047)</u> | <u>142,241</u> | <u>-</u> |
| Total governmental activities | <u>\$19,595,288</u> | <u>\$ -</u> | <u>\$ (703,047)</u> | <u>\$18,892,241</u> | <u>\$ 425,000</u> |
| Business-type activities: | | | | | |
| Accrued compensated absences | <u>\$ 54,608</u> | <u>\$ -</u> | <u>\$ (11,787)</u> | <u>\$ 42,821</u> | <u>\$ -</u> |
| Total business-type activities | <u>\$ 54,608</u> | <u>\$ -</u> | <u>\$ (11,787)</u> | <u>\$ 42,821</u> | <u>\$ -</u> |
| <u>Component Units:</u> | | | | | |
| Bond defeasance bank loan | <u>\$ 101,373</u> | <u>\$ -</u> | <u>\$ (19,306)</u> | <u>\$ 82,067</u> | <u>\$ 19,530</u> |

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City is a member of the Michigan Municipal League sponsored self-insurance/public entity risk pool for general liability and property insurance; and the Michigan Municipal Workers Compensation Fund. The City pays annual premiums to the respective pools that is based on City's experience rating. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool.

General Liability and Property. The Michigan Municipal Liability and Property Fund provides coverage of up to \$10 million per occurrence for general, public officials, law enforcement and automobile claims. Property coverage is by classification ranging between \$19 thousand to \$21 million in claims with a deductible of one thousand dollars.

Workers' Compensation. The Michigan Municipal Workers' Compensation Fund provides coverage of all claims incurred up to a maximum of \$500 thousand per occurrence.

Insurance settlements have not exceeded insurance coverage for either fund in any of the past three years. As such, no accrual for incurred but not reported claims has been established. The Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation Fund have published their own financial reports, which can be obtained by contacting the management of each pool.

4-B. Property Taxes

The government's property taxes are levied each July 1st on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by September 15th. As of March 1st of the succeeding year, unpaid real property taxes are sold to and collected by Macomb County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2006 levy, including industrial facilities was \$437,432,722. The government's general operating tax rate for fiscal year 2006-07 was 9.8299 mills with an additional 1.3446 mills for the library, and 2.7210 for various City debt.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

4-C. Commitments and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

The City has entered into construction contract commitments with Barton Malow Company for the construction of the City's water plant. Total contract awarded amounted to \$12,655,391 of which the City has paid or retained \$11,872,317 as of fiscal year end.

4-D. Benefits

New Baltimore Employees Retirement System

Plan Description

The City of New Baltimore Retirement System is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. The requirements of the State Constitution and the City Charter assign the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

The City of New Baltimore Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Contributions

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute an actuarially determined rate; the current rate is 13.23% of annual covered payroll. Contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of the system are financed through investment earnings.

Membership of the retirement system consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

| | |
|---|------------------|
| Retirees and beneficiaries receiving benefits | 22 |
| Active and inactive members | <u>61</u> |
| Total | <u>83</u> |

Annual Pension Cost

The City's annual pension cost and net pension obligation to the City of New Baltimore Employee's Retirement System for the current year were as follows:

| | |
|--|--------------------|
| Annual required contribution/pension cost | \$ 348,275 |
| Contribution made | (348,275) |
| Increase in net pension obligation | - |
| Net pension obligation, beginning of year | <u>-</u> |
| Net pension obligation, end of year | <u>\$ -</u> |

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

| Three-Year Trend Information | | | |
|-------------------------------------|--|--|---------------------------------------|
| Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| June 30, 2005 | \$ 362,440 | 100% | \$ - |
| June 30, 2006 | 364,977 | 100% | - |
| June 30, 2007 | 348,275 | 100% | - |

Actuarial Methods and Assumptions

| | |
|--------------------------------------|--------------------------|
| Valuation Date | June 30, 2006 |
| Actuarial Cost Method | Entry age normal cost |
| Amortization method | Level percent of payroll |
| Remaining Amortization Period | 9 - 30* |
| Assets Valuation Method | |
| Smoothed Market | 4 years |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.0% |
| Additional Projected Salary increase | 5.0 - 8.0% |
| Assumed payroll growth | 5.0% |
| Cost of Living Adjustment | N/A |

- * Combined liability is being amortized over a period of 17 years, with 9 years remaining. Gains and losses are being amortized over a perpetual 10 years. Liabilities created by a plan amendment are amortized over a 30-year basis from the date established, with 30 years remaining.

Other Postemployment Benefits

The City also provides postemployment health care benefits, as per the requirements of certain agreements and union contracts for certain retirees and their dependents. The City currently has 7 retirees participating in the plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 25% contribution required from retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare, with no contribution required from the retiree and a 25% contribution from dependents. The City maintains an internal service Retiree Health Care Fund to accumulate, invest and purchase insurance premiums for retirees. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. During the current fiscal year, expenditures amounted to \$101,684. Benefits under the Plan are administered under a third party agreement with Blue Cross Blue Shield of

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Michigan. The Mayor and City Council has the authority to establish and amend benefit provisions.

At June 30, 2006, the date of the latest actuarial valuation, participants in the plan consisted of:

Retired members and beneficiaries:

| | |
|-----------------|-----------|
| Under age 65 | 8 |
| Age 65 and over | <u>7</u> |
| Total | 15 |

The June 30, 2006 actuarial valuation identified the required employer contribution rate as 12.15% to 22.16% of covered payroll, depending on the assumption set (optimistic, intermediate or pessimistic). During the current fiscal year, City and employee contributions totaled \$135,673 and \$19,107, respectively.

The benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to June 30. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and dependents (as defined by the Plan) and (2) active employees and their beneficiaries and dependents after retirement from service. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical insurance premium-cost data to estimate future annual premium costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2006. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment of present and future assets of 7.0% per year compounded annually, (b) projected salary increases of 5.0 - 8.0% per year compounded annually, attributable to inflation, and (c) health care cost increases of 5.0 - 15.0% per year (based on assumption set).

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The Plan's unfunded accrued liability, which was determined by an actuary, is as follows at June 30, 2006, the date of the latest actuarial valuation:

| | <u>Optimistic</u> | <u>Intermediate</u> | <u>Pessimistic</u> |
|---|---------------------------|---------------------------|---------------------------|
| Retirees and beneficiaries | | | |
| Present active members | \$1,409,967 | \$1,815,081 | \$2,274,060 |
| Value of expected future benefit payments | 4,810,236 | 6,531,353 | 8,621,062 |
| Less: Value of future normal costs | <u>(1,660,966)</u> | <u>2,281,039)</u> | <u>(3,049,741)</u> |
| Total accrued liability | 4,559,237 | 6,065,395 | 7,845,381 |
| Valuation assets | <u>(525,022)</u> | <u>(525,022)</u> | <u>(525,022)</u> |
| Unfunded accrued liability | <u>\$4,034,215</u> | <u>\$5,540,373</u> | <u>\$7,320,359</u> |

Net assets available to fund this Plan amount to \$750,783 at June 30, 2007.

* * * * *

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF NEW BALTIMORE, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Trust - New Baltimore Employees Retirement System

Trend Information

| Schedule of Funding Progress (in thousands) | | | | | | |
|---|--|---|--------------------------------------|---------------------------------|---------------------------|--|
| Actuarial Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Attained Age# (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio % (a / b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a) / c) |
| 2001 | \$ 4,625 | \$ 5,425 | \$ 800 | \$ 85.2 | \$ 2,108 | 38.0 % |
| 2002 | 4,928 | 5,890 | 962 | 83.7 | 2,300 | 41.8 |
| 2003 | 5,215 | 6,517 | 1,302 | 80.0 | 2,525 | 51.5 |
| 2004 | 5,606 | 7,043 | 1,437 | 79.6 | 2,555 | 56.2 |
| 2005 | 6,119 | 7,924 | 1,805 | 77.2 | 2,672 | 67.6 |
| 2006 | 6,779 | 9,727 | 2,948 | 69.7 | 2,808 | 105.0 |

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF NEW BALTIMORE, MICHIGAN

Combining Balance Sheet Non-Major Governmental Funds June 30, 2007

| | Special Revenue | | | | |
|---|-------------------|------------------------|-------------------|-----------------------|------------------|
| | Major Streets | Street Construction | Local Streets | Cemetery Operating | Cemetery Land |
| Assets | | | | | |
| Cash and cash equivalents | \$ 576,914 | \$ 15,234 | \$ 59,798 | \$ - | \$ 95,175 |
| Investments | - | - | 162,567 | - | - |
| Receivables: | | | | | |
| Taxes receivable | - | - | - | - | - |
| Interest receivable | 1,378 | - | 1,014 | - | - |
| Due from other governments | 63,358 | - | 30,966 | - | - |
| Prepaid expenditures | - | - | - | - | - |
| Total assets | \$ 641,650 | \$ 15,234 | \$ 254,345 | \$ - | \$ 95,175 |
| Liabilities | | | | | |
| Accounts payable | \$ - | \$ 15,234 | \$ 1,438 | \$ - | \$ - |
| Due to other funds | - | - | - | - | - |
| Due to other governments | - | - | - | - | - |
| Accrued liabilities | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - |
| Total liabilities | - | 15,234 | 1,438 | - | - |
| Fund balance: | | | | | |
| Reserved: | | | | | |
| Debt service | - | - | - | - | - |
| Prepays | - | - | - | - | - |
| Perpetual care | - | - | - | - | - |
| Unreserved, undesignated | 641,650 | - | 252,907 | - | 95,175 |
| Total fund balances | 641,650 | - | 252,907 | - | 95,175 |
| Total liabilities and fund balance | \$ 641,650 | \$ 15,234 | \$ 254,345 | \$ - | \$ 95,175 |

| Special Revenue | | | | |
|-------------------|------------------------|-----------------------|----------------------------|------------------|
| Library | Building Inspection | Public Improvement | Drug Law Enforcement | Burke Estate |
| \$ 39,073 | \$ 196,952 | \$ 1,241,832 | \$ 58,676 | \$ 1,052 |
| 734,715 | - | 968,488 | - | 26,356 |
| 7,405 | - | - | - | - |
| 2,593 | 953 | 8,550 | - | 62 |
| - | - | - | - | - |
| 2,970 | 2,319 | - | - | - |
| \$ 786,756 | \$ 200,224 | \$ 2,218,870 | \$ 58,676 | \$ 27,470 |
| \$ 16,110 | \$ 2,905 | \$ 10,663 | \$ 74 | \$ - |
| - | - | - | - | - |
| - | 4,900 | - | - | - |
| 4,868 | 3,119 | - | - | - |
| 7,408 | - | - | - | - |
| 28,386 | 10,924 | 10,663 | 74 | - |
| - | - | - | - | - |
| 2,970 | 2,319 | - | - | - |
| - | - | - | - | - |
| 755,400 | 186,981 | 2,208,207 | 58,602 | 27,470 |
| 758,370 | 189,300 | 2,208,207 | 58,602 | 27,470 |
| \$ 786,756 | \$ 200,224 | \$ 2,218,870 | \$ 58,676 | \$ 27,470 |

CITY OF NEW BALTIMORE, MICHIGAN

Combining Balance Sheet Non-Major Governmental Funds (Concluded) June 30, 2007

| | <u>Permanent Fund</u> | <u>Debt Service</u> | |
|---|---------------------------|---|---------------------------------------|
| | | 1996 | |
| | <u>Perpetual Care</u> | <u>St. Clair Dr. Special Assessment</u> | <u>1978 Drainage District</u> |
| Assets | | | |
| Cash and cash equivalents | \$ 206,616 | \$ - | \$ - |
| Investments | - | - | - |
| Receivables: | | | |
| Taxes receivable | - | - | - |
| Interest receivable | 792 | - | - |
| Due from other governments | - | - | - |
| Prepaid expenditures | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets | <u><u>\$ 207,408</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Liabilities | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Due to other funds | 7,408 | 49,180 | - |
| Due to other governments | - | - | - |
| Accrued liabilities | - | - | - |
| Deferred revenue | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>7,408</u> | <u>49,180</u> | <u>-</u> |
| Fund balance | | | |
| Reserved: | | | |
| Debt service | - | | - |
| Prepays | - | - | - |
| Perpetual care | 200,000 | - | - |
| Unreserved, undesignated | - | (49,180) | - |
| | <u>-</u> | <u>(49,180)</u> | <u>-</u> |
| Total fund balances (deficit) | <u>200,000</u> | <u>(49,180)</u> | <u>-</u> |
| Total liabilities and fund balance | <u><u>\$ 207,408</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

| Debt Service | | | | |
|--------------------------|--------------------------|--------------------------|--------------------------|---------------------|
| 1999 Unlimited Tax | 2001 Unlimited Tax | 2002 Unlimited Tax | 2005 Unlimited Tax | Total |
| \$ 656 | \$ 1,038 | \$ 620 | \$ 135,560 | \$ 2,629,196 |
| 52,000 | 44,500 | 38,000 | - | 2,026,626 |
| 2,684 | 3,268 | 1,647 | 1,173 | 16,177 |
| 446 | 322 | 348 | 958 | 17,416 |
| - | - | - | - | 94,324 |
| - | - | - | - | 5,289 |
| \$ 55,786 | \$ 49,128 | \$ 40,615 | \$ 137,691 | \$ 4,789,028 |
| | | | | |
| \$ - | \$ - | \$ - | \$ 225 | \$ 46,649 |
| - | - | - | - | 56,588 |
| - | - | - | - | 4,900 |
| - | - | - | - | 7,987 |
| 2,685 | 3,269 | 985 | 1,173 | 15,520 |
| 2,685 | 3,269 | 985 | 1,398 | 131,644 |
| | | | | |
| 53,101 | 45,859 | 39,630 | 136,293 | 274,883 |
| - | - | - | - | 5,289 |
| - | - | - | - | 200,000 |
| - | - | - | - | 4,177,212 |
| 53,101 | 45,859 | 39,630 | 136,293 | 4,657,384 |
| \$ 55,786 | \$ 49,128 | \$ 40,615 | \$ 137,691 | \$ 4,789,028 |

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2007

| | Special Revenue | | | |
|---------------------------------------|--------------------------|----------------------------------|--------------------------|-------------------------------|
| | Major Streets | Street Reconstruction | Local Streets | Cemetery Operating |
| Revenues | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Licenses and permits | - | - | - | - |
| State grants and reimbursements | 388,533 | - | 189,455 | - |
| Charges for services | - | - | - | 14,830 |
| Fines and forfeitures | - | - | - | - |
| Contributions | - | 46,404 | - | - |
| Investment earnings | 32,657 | 4,720 | 4,656 | 34 |
| Other | - | - | - | 2,425 |
| Total revenues | <u>421,190</u> | <u>51,124</u> | <u>194,111</u> | <u>17,289</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | - | - | - | 113,208 |
| Public safety | - | - | - | - |
| Highways and streets | 208,185 | 110,781 | 229,079 | - |
| Recreation and culture | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Capital outlay | - | 432,461 | - | 56,343 |
| Total expenditures | <u>208,185</u> | <u>543,242</u> | <u>229,079</u> | <u>169,551</u> |
| Revenues over (under) expenditures | <u>213,005</u> | <u>(492,118)</u> | <u>(34,968)</u> | <u>(152,262)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | 214,394 | 92,634 | 135,936 |
| Transfers out | (92,634) | - | - | - |
| Total other financing sources (uses) | <u>(92,634)</u> | <u>214,394</u> | <u>92,634</u> | <u>135,936</u> |
| Net change in fund balances | 120,371 | (277,724) | 57,666 | (16,326) |
| Fund balances, beginning of year | <u>521,279</u> | <u>277,724</u> | <u>195,241</u> | <u>16,326</u> |
| Fund balances, end of year | <u>\$ 641,650</u> | <u>\$ -</u> | <u>\$ 252,907</u> | <u>\$ -</u> |

| Special Revenue | | | | | |
|------------------|-------------------|------------------------|-----------------------|----------------------------|------------------|
| Cemetery Land | Library | Building Inspection | Public Improvement | Drug Law Enforcement | Burke Estate |
| \$ - | \$ 569,640 | \$ - | \$ - | \$ - | \$ - |
| - | - | 188,669 | - | - | - |
| - | 9,637 | - | - | - | - |
| - | 4,891 | 32,865 | - | - | - |
| - | 6,585 | 5,994 | - | 15,527 | - |
| - | 22,925 | - | - | - | - |
| 3,333 | 42,562 | 9,490 | 79,851 | 2,030 | 1,368 |
| - | 8,815 | - | 3,600 | - | - |
| 3,333 | 665,055 | 237,018 | 83,451 | 17,557 | 1,368 |
| - | - | - | - | - | - |
| - | - | 287,531 | - | 2,232 | - |
| - | - | - | - | - | - |
| - | 456,868 | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 53,610 | - | 105,571 | - | - |
| - | 510,478 | 287,531 | 105,571 | 2,232 | - |
| 3,333 | 154,577 | (50,513) | (22,120) | 15,325 | 1,368 |
| - | - | - | 487,341 | - | - |
| - | - | - | (121,812) | - | - |
| - | - | - | 365,529 | - | - |
| 3,333 | 154,577 | (50,513) | 343,409 | 15,325 | 1,368 |
| 91,842 | 603,793 | 239,813 | 1,864,798 | 43,277 | 26,102 |
| \$ 95,175 | \$ 758,370 | \$ 189,300 | \$ 2,208,207 | \$ 58,602 | \$ 27,470 |

CITY OF NEW BALTIMORE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds (Concluded)

For the Year Ended June 30, 2007

| | Permanent Fund | Debt Service | |
|---|--------------------------|--|------------------------------|
| | | 1996 | |
| | Perpetual Care | St. Clair Dr. Special Assessment | 1978 Drainage District |
| Revenues | | | |
| Property taxes | \$ - | \$ - | \$ 4 |
| Licenses and permits | - | - | - |
| State grants and reimbursements | - | - | - |
| Charges for services | 6,400 | - | - |
| Fines and forfeitures | - | - | - |
| Contributions | - | - | - |
| Investment earnings | 9,697 | 1,305 | 14 |
| Other | - | - | - |
| Total revenues | <u>16,097</u> | <u>1,305</u> | <u>18</u> |
| Expenditures | | | |
| Current: | | | |
| General government | - | - | - |
| Public safety | - | - | - |
| Highways and streets | - | - | - |
| Recreation and culture | - | - | - |
| Debt service: | | | |
| Principal | - | 258,000 | - |
| Interest | - | 7,579 | - |
| Capital outlay | - | - | - |
| Total expenditures | <u>-</u> | <u>265,579</u> | <u>-</u> |
| Revenues over (under) expenditures | <u>16,097</u> | <u>(264,274)</u> | <u>18</u> |
| Other financing sources (uses) | | | |
| Transfers in | - | - | - |
| Transfers out | <u>(16,097)</u> | <u>-</u> | <u>(2,357)</u> |
| Total other financing sources (uses) | <u>(16,097)</u> | <u>-</u> | <u>(2,357)</u> |
| Net change in fund balances | - | (264,274) | (2,339) |
| Fund balances, beginning of year | <u>200,000</u> | <u>215,094</u> | <u>2,339</u> |
| Fund balances (deficit), end of year | <u><u>\$ 200,000</u></u> | <u><u>\$ (49,180)</u></u> | <u><u>\$ -</u></u> |

| Debt Service | | | | |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| 1999 Unlimited Tax | 2001 Unlimited Tax | 2002 Unlimited Tax | 2005 Unlimited Tax | Total |
| \$ 127,635 | \$ 216,286 | \$ 76,762 | \$ 757,011 | \$ 1,747,338 |
| - | - | - | - | 188,669 |
| - | - | - | - | 587,625 |
| - | - | - | - | 58,986 |
| - | - | - | - | 28,106 |
| - | - | - | - | 69,329 |
| 5,060 | 4,772 | 2,343 | 9,551 | 213,443 |
| - | - | - | - | 14,840 |
| <u>132,695</u> | <u>221,058</u> | <u>79,105</u> | <u>766,562</u> | <u>2,908,336</u> |
| - | - | - | - | 113,208 |
| - | - | - | - | 289,763 |
| - | - | - | - | 548,045 |
| - | - | - | - | 456,868 |
| 100,000 | 100,000 | 25,000 | 175,000 | 658,000 |
| 68,201 | 122,130 | 45,687 | 573,962 | 817,559 |
| - | - | - | - | 647,985 |
| <u>168,201</u> | <u>222,130</u> | <u>70,687</u> | <u>748,962</u> | <u>3,531,428</u> |
| <u>(35,506)</u> | <u>(1,072)</u> | <u>8,418</u> | <u>17,600</u> | <u>(623,092)</u> |
| - | - | - | - | 930,305 |
| - | - | - | - | (232,900) |
| - | - | - | - | 697,405 |
| <u>(35,506)</u> | <u>(1,072)</u> | <u>8,418</u> | <u>17,600</u> | <u>74,313</u> |
| <u>88,607</u> | <u>46,931</u> | <u>31,212</u> | <u>118,693</u> | <u>4,583,071</u> |
| <u>\$ 53,101</u> | <u>\$ 45,859</u> | <u>\$ 39,630</u> | <u>\$ 136,293</u> | <u>\$ 4,657,384</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
MAJOR STREETS
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|--------------------------|--------------------------|--------------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| State grants and reimbursements | \$ 370,536 | \$ 370,536 | \$ 388,533 | \$ 17,997 |
| Investment earnings | 9,000 | 9,000 | 32,657 | 23,657 |
| Total revenues | <u>379,536</u> | <u>379,536</u> | <u>421,190</u> | <u>41,654</u> |
| Expenditures | | | | |
| Street maintenance | 170,821 | 170,821 | 74,696 | 96,125 |
| Signs and markings | 17,500 | 17,500 | 18,692 | (1,192) |
| Snow removal | 98,000 | 98,000 | 114,797 | (16,797) |
| Total expenditures | <u>286,321</u> | <u>286,321</u> | <u>208,185</u> | <u>78,136</u> |
| Revenues over (under) expenditures | 93,215 | 93,215 | 213,005 | 119,790 |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(92,634)</u> | <u>(92,634)</u> | <u>(92,634)</u> | <u>-</u> |
| Net change in fund balances | 581 | 581 | 120,371 | 119,790 |
| Fund balance, beginning of year | <u>521,279</u> | <u>521,279</u> | <u>521,279</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 521,860</u> | <u>\$ 521,860</u> | <u>\$ 641,650</u> | <u>\$ 119,790</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
STREET RECONSTRUCTION
Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Contributions | \$ - | \$ - | \$ 46,404 | \$ 46,404 |
| Investment earnings | 10,500 | 10,500 | 4,720 | (5,780) |
| Total revenues | 10,500 | 10,500 | 51,124 | 40,624 |
| Expenditures | | | | |
| Operating expenditures | 75,000 | 75,000 | 110,781 | (35,781) |
| Construction | 700,000 | 700,000 | 432,461 | 267,539 |
| Total expenditures | 775,000 | 775,000 | 543,242 | 231,758 |
| Revenues over (under) expenditures | (764,500) | (764,500) | (492,118) | 272,382 |
| Other financing sources (uses) | | | | |
| Transfers in | 150,000 | 150,000 | 214,394 | 64,394 |
| Net change in fund balances | (614,500) | (614,500) | (277,724) | 336,776 |
| Fund balance, beginning of year | 277,724 | 277,724 | 277,724 | - |
| Fund balance (deficit), end of year | \$ (336,776) | \$ (336,776) | \$ - | \$ 336,776 |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
LOCAL STREETS
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------------|-------------------|-------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| State grants and reimbursements | \$ 181,195 | \$ 181,195 | \$ 189,455 | \$ 8,260 |
| Charges for services | - | - | - | - |
| Investment earnings | 3,500 | 3,500 | 4,656 | 1,156 |
| Total revenues | 184,695 | 184,695 | 194,111 | 9,416 |
| Expenditures | | | | |
| Street maintenance | 118,821 | 118,821 | 102,253 | 16,568 |
| Signs and markings | 16,500 | 16,500 | 13,040 | 3,460 |
| Snow removal | 160,258 | 160,258 | 113,786 | 46,472 |
| Total expenditures | 295,579 | 295,579 | 229,079 | 66,500 |
| Revenues over (under) expenditures | (110,884) | (110,884) | (34,968) | 75,916 |
| Other financing sources (uses) | | | | |
| Transfers in | 92,634 | 92,634 | 92,634 | - |
| Net change in fund balances | (18,250) | (18,250) | 57,666 | 75,916 |
| Fund balance, beginning of year | 195,241 | 195,241 | 195,241 | - |
| Fund balance, end of year | \$ 176,991 | \$ 176,991 | \$ 252,907 | \$ 75,916 |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
CEMETERY OPERATING
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------------|-------------------------|--------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Charges for services | \$ 12,000 | \$ 12,000 | \$ 14,830 | \$ 2,830 |
| Investment earnings | 200 | 200 | 34 | (166) |
| Other | - | - | 2,425 | 2,425 |
| Total revenues | <u>12,200</u> | <u>12,200</u> | <u>17,289</u> | <u>5,089</u> |
| Expenditures | | | | |
| Operating expenditures | 56,630 | 56,630 | 113,208 | (56,578) |
| Capital outlay | - | - | 56,343 | (56,343) |
| Total expenditures | <u>56,630</u> | <u>56,630</u> | <u>169,551</u> | <u>(112,921)</u> |
| Revenues over (under) expenditures | (44,430) | (44,430) | (152,262) | (107,832) |
| Other financing sources (uses) | | | | |
| Transfers in | <u>47,000</u> | <u>104,418</u> | <u>135,936</u> | <u>31,518</u> |
| Net change in fund balances | 2,570 | 59,988 | (16,326) | (76,314) |
| Fund balance, beginning of year | <u>16,326</u> | <u>16,326</u> | <u>16,326</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 18,896</u> | <u>\$ 76,314</u> | <u>\$ -</u> | <u>\$ (76,314)</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
CEMETERY LAND
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with |
|----------------------------------|-------------------------|------------------|------------------|----------------------|
| | Original | Final | Actual | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Investment earnings | \$ 2,000 | \$ 2,000 | \$ 3,333 | \$ 1,333 |
| Fund balance, beginning of year | 91,842 | 91,842 | 91,842 | - |
| Fund balance, end of year | \$ 93,842 | \$ 93,842 | \$ 95,175 | \$ 1,333 |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
LIBRARY
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|--------------------------|--------------------------|--------------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Property taxes | \$ 560,338 | \$ 560,338 | \$ 569,640 | \$ 9,302 |
| State aid | 5,000 | 5,000 | 9,637 | 4,637 |
| Fines and forfeitures | 2,575 | 2,575 | 6,585 | 4,010 |
| Charges for services | 3,309 | 3,309 | 4,891 | 1,582 |
| Donations | 15,656 | 15,656 | 22,925 | 7,269 |
| Interest earnings | 13,493 | 13,493 | 42,562 | 29,069 |
| Other | 5,376 | 5,376 | 8,815 | 3,439 |
| Total revenues | <u>605,747</u> | <u>605,747</u> | <u>665,055</u> | <u>59,308</u> |
| Expenditures | | | | |
| Operating expenditures | 539,255 | 539,255 | 456,868 | 82,387 |
| Capital outlay | <u>61,500</u> | <u>61,500</u> | <u>53,610</u> | <u>7,890</u> |
| Total expenditures | <u>600,755</u> | <u>600,755</u> | <u>510,478</u> | <u>90,277</u> |
| Net change in fund balances | 4,992 | 4,992 | 154,577 | 149,585 |
| Fund balance, beginning of year | <u>603,793</u> | <u>603,793</u> | <u>603,793</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 608,785</u> | <u>\$ 608,785</u> | <u>\$ 758,370</u> | <u>\$ 149,585</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
BUILDING INSPECTION
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|--------------------------|--------------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Licenses and permits | \$ 230,000 | \$ 230,000 | \$ 188,669 | \$ (41,331) |
| Charges for services | - | - | 32,865 | 32,865 |
| Fines and forfeitures | 3,000 | 3,000 | 5,994 | 2,994 |
| Investment earnings | 5,000 | 5,000 | 9,490 | 4,490 |
| Total revenues | <u>238,000</u> | <u>238,000</u> | <u>237,018</u> | <u>(982)</u> |
| Expenditures | | | | |
| Operating expenditures | <u>267,782</u> | <u>267,782</u> | <u>287,531</u> | <u>(19,749)</u> |
| Net change in fund balances | (29,782) | (29,782) | (50,513) | (20,731) |
| Fund balance, beginning of year | <u>239,813</u> | <u>239,813</u> | <u>239,813</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 210,031</u> | <u>\$ 210,031</u> | <u>\$ 189,300</u> | <u>\$ (20,731)</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
PUBLIC IMPROVEMENT
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|----------------------------|----------------------------|----------------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Investment earnings | \$ 25,000 | \$ 25,000 | \$ 79,851 | \$ 54,851 |
| Other | - | - | 3,600 | 3,600 |
| Total revenues | <u>25,000</u> | <u>25,000</u> | <u>83,451</u> | <u>58,451</u> |
| Expenditures | | | | |
| Capital outlay | <u>245,000</u> | <u>245,000</u> | <u>105,571</u> | <u>139,429</u> |
| Revenues over (under) expenditures | (220,000) | (220,000) | (22,120) | 197,880 |
| Other financing sources (uses) | | | | |
| Transfers in | 237,341 | 237,341 | 487,341 | 250,000 |
| Transfers out | <u>-</u> | <u>(57,418)</u> | <u>(121,812)</u> | <u>(64,394)</u> |
| Total other financing sources | <u>237,341</u> | <u>179,923</u> | <u>365,529</u> | <u>185,606</u> |
| Net change in fund balances | 17,341 | (40,077) | 343,409 | 383,486 |
| Fund balance, beginning of year | <u>1,864,798</u> | <u>1,864,798</u> | <u>1,864,798</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 1,882,139</u> | <u>\$ 1,824,721</u> | <u>\$ 2,208,207</u> | <u>\$ 383,486</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
DRUG LAW ENFORCEMENT
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|----------------------------------|-------------------------|-------------------------|-------------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Fines and forfeitures | \$ 3,000 | \$ 3,000 | \$ 15,527 | \$ 12,527 |
| Investment earnings | 75 | 75 | 2,030 | 1,955 |
| Total revenues | <u>3,075</u> | <u>3,075</u> | <u>17,557</u> | <u>14,482</u> |
| Expenditures | | | | |
| Operating expenditures | <u>1,500</u> | <u>1,500</u> | <u>2,232</u> | <u>(732)</u> |
| Net change in fund balance | 1,575 | 1,575 | 15,325 | 13,750 |
| Fund balance, beginning of year | <u>43,277</u> | <u>43,277</u> | <u>43,277</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 44,852</u> | <u>\$ 44,852</u> | <u>\$ 58,602</u> | <u>\$ 13,750</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
BURKE ESTATE
For the Year Ended June 30, 2007

| | Budgeted Amounts | | | Variance with |
|----------------------------------|-------------------------|-------------------------|-------------------------|----------------------|
| | Original | Final | Actual | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Investment earnings | \$ 900 | \$ 900 | \$ 1,368 | \$ 468 |
| Fund balance, beginning of year | <u>26,102</u> | <u>26,102</u> | <u>26,102</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 27,002</u> | <u>\$ 27,002</u> | <u>\$ 27,470</u> | <u>\$ 468</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Net Assets
INTERNAL SERVICE FUNDS
June 30, 2007

| | <u>Equipment</u> | <u>Department of Public Service</u> | <u>Retiree Health Care</u> | <u>Total</u> |
|--|-------------------|---|------------------------------------|--------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 510,167 | \$ 342,507 | \$ 38,938 | \$ 891,612 |
| Investments | - | - | 709,333 | 709,333 |
| Interest receivable | 2,341 | - | - | 2,341 |
| Due from other governments | - | (6,978) | 328 | (6,650) |
| Inventory | - | 23,982 | - | 23,982 |
| Prepaid expenses | 1,668 | 13,084 | 2,184 | 16,936 |
| Total current assets | 514,176 | 372,595 | 750,783 | 1,637,554 |
| Noncurrent assets | | | | |
| Capital assets, net of accumulated depreciation | 343,537 | 258,407 | - | 601,944 |
| Total assets | 857,713 | 631,002 | 750,783 | 2,239,498 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | 2,675 | 11,618 | - | 14,293 |
| Accrued liabilities | 1,427 | 13,708 | - | 15,135 |
| Total current liabilities | 4,102 | 25,326 | - | 29,428 |
| Long-term liabilities | | | | |
| Accrued compensated absences | 3,289 | 34,784 | - | 38,073 |
| Total liabilities | 7,391 | 60,110 | - | 67,501 |
| Net Assets | | | | |
| Investment in capital assets | 343,537 | 258,407 | - | 601,944 |
| Unrestricted | 506,785 | 312,485 | 750,783 | 1,570,053 |
| Total net assets | \$ 850,322 | \$ 570,892 | \$750,783 | \$2,171,997 |

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2007

| | <u>Equipment</u> | <u>Department of Public Service</u> | <u>Retiree Health Care</u> | <u>Total</u> |
|--|--------------------------|---|------------------------------------|----------------------------|
| Operating revenues | | | | |
| Charges for services | \$ 355,809 | \$ 902,277 | \$ - | \$ 1,258,086 |
| Employer contributions | - | - | 139,673 | 139,673 |
| Employee contributions | - | - | 19,107 | 19,107 |
| Other revenue | - | 2,523 | - | 2,523 |
| Total operating revenues | <u>355,809</u> | <u>904,800</u> | <u>158,780</u> | <u>1,419,389</u> |
| Operating expenses | | | | |
| Services | 217,013 | 910,505 | 101,684 | 1,229,202 |
| Depreciation | <u>108,015</u> | <u>12,075</u> | <u>-</u> | <u>120,090</u> |
| Total operating expenses | <u>325,028</u> | <u>922,580</u> | <u>101,684</u> | <u>1,349,292</u> |
| Operating income (loss) | <u>30,781</u> | <u>(17,780)</u> | <u>57,096</u> | <u>70,097</u> |
| Non-operating revenues | | | | |
| Investment earnings | 18,345 | 1,493 | 31,981 | 51,819 |
| Appreciation in fair value of investments | <u>-</u> | <u>-</u> | <u>42,562</u> | <u>42,562</u> |
| Total non-operating revenues | <u>18,345</u> | <u>1,493</u> | <u>74,543</u> | <u>94,381</u> |
| Income (loss) before transfers | 49,126 | (16,287) | 131,639 | 164,478 |
| Transfers in | <u>-</u> | <u>141,671</u> | <u>-</u> | <u>141,671</u> |
| Change in net assets | 49,126 | 125,384 | 131,639 | 306,149 |
| Net assets, beginning of year | <u>801,196</u> | <u>445,508</u> | <u>619,144</u> | <u>1,865,848</u> |
| Net assets, end of year | <u>\$ 850,322</u> | <u>\$ 570,892</u> | <u>\$ 750,783</u> | <u>\$ 2,171,997</u> |

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Cash Flows
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2007

| | <u>Equipment</u> | <u>Department of Public Service</u> | <u>Retiree Health Care</u> | <u>Total</u> |
|---|--------------------------|---|------------------------------------|--------------------------|
| Cash flows from operating activities | | | | |
| Cash received from interfund services | \$ 352,192 | \$ 1,114,647 | \$ 171,817 | \$ 1,638,656 |
| Cash payments to employees | (75,348) | (141,452) | - | (216,800) |
| Cash payments to suppliers for goods and services | (143,080) | (773,852) | (95,782) | (1,012,714) |
| Net cash provided by operating activities | <u>133,764</u> | <u>199,343</u> | <u>76,035</u> | <u>409,142</u> |
| Cash flows from non-capital financing activities | | | | |
| Transfers from other funds | <u>-</u> | <u>141,671</u> | <u>-</u> | <u>141,671</u> |
| Cash flows from capital and related financing activities | | | | |
| Purchase of capital assets | <u>(37,918)</u> | <u>-</u> | <u>-</u> | <u>(37,918)</u> |
| Cash flows from investing activities | | | | |
| Purchase of investments | 224,739 | - | (137,302) | 87,437 |
| Investment income | <u>18,017</u> | <u>1,493</u> | <u>74,543</u> | <u>94,053</u> |
| Net cash provided by (used in) investing activities | <u>242,756</u> | <u>1,493</u> | <u>(62,759)</u> | <u>181,490</u> |
| Net increase in cash and cash equivalents | 338,602 | 342,507 | 13,276 | 694,385 |
| Cash and cash equivalents, beginning of year | <u>171,565</u> | <u>-</u> | <u>25,662</u> | <u>197,227</u> |
| Cash and cash equivalents, end of year | <u>\$ 510,167</u> | <u>\$ 342,507</u> | <u>\$ 38,938</u> | <u>\$ 891,612</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | | |
| Operating income | \$ 30,781 | \$ (17,780) | \$ 57,096 | \$ 70,097 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation | 108,015 | 12,075 | - | 120,090 |
| Changes in assets and liabilities: | | | | |
| Due from other funds | 8,215 | 212,083 | 13,037 | 233,335 |
| Due to other governments | - | 6,978 | - | 6,978 |
| Inventory | - | (3,811) | - | (3,811) |
| Prepaid items | 135 | 5,681 | 5,902 | 11,718 |
| Accounts payable | (216) | 9,353 | - | 9,137 |
| Due to other funds | (11,832) | (2,236) | - | (14,068) |
| Accrued liabilities | (977) | (10,870) | - | (11,847) |
| Accrued compensated absences | (357) | (12,130) | - | (12,487) |
| Net cash provided by operating activities | <u>\$ 133,764</u> | <u>\$ 199,343</u> | <u>\$ 76,035</u> | <u>\$ 409,142</u> |

CITY OF NEW BALTIMORE, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2007

| | Governmental Fund | Adjustments | Statement of Net Assets |
|--|------------------------------|--------------------|--|
| Assets | | | |
| Cash and cash equivalents | \$ 161,320 | \$ - | \$ 161,320 |
| Capital assets: | | | |
| Depreciable, net | - | 285,414 | 285,414 |
| Total assets | \$ 161,320 | 285,414 | 446,734 |
| Liabilities | | | |
| Accrued liabilities | \$ - | 3,284 | 3,284 |
| Long-term liabilities | | | |
| Due within one year | - | 19,530 | 19,530 |
| Due after one year | - | 62,537 | 62,537 |
| Total Liabilities | - | 85,351 | 85,351 |
| Fund Balance/Net Assets | | | |
| Undesignated | 161,320 | (161,320) | - |
| Total liabilities and fund balance | \$ 161,320 | | |
| Net Assets | | | |
| Invested in capital assets, net of related debt | | 203,347 | 203,347 |
| Unrestricted | | 158,036 | 158,036 |
| Total net assets | | \$ 361,383 | \$ 361,383 |

CITY OF NEW BALTIMORE, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2007

| | Governmental | | Statement |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | Fund | Adjustments | of |
| | | | Activities |
| Revenues | | | |
| Property taxes | \$ 59,695 | \$ - | \$ 59,695 |
| Other revenues | 77,250 | - | 77,250 |
| Investment earnings | 420 | - | 420 |
| | <u>137,365</u> | <u>-</u> | <u>137,365</u> |
| Expenditures / Expenses | | | |
| Principal | 19,306 | (19,306) | - |
| Interest | 4,470 | - | 4,470 |
| Depreciation | - | 18,414 | 18,414 |
| Other | 41,301 | - | 41,301 |
| | <u>65,077</u> | <u>(892)</u> | <u>64,185</u> |
| Total expenditures / expenses | <u>65,077</u> | <u>(892)</u> | <u>64,185</u> |
| Net change in fund balance/net assets | 72,288 | 892 | 73,180 |
| Beginning fund balance/net assets | <u>89,032</u> | <u>199,171</u> | <u>288,203</u> |
| Ending fund balance/net assets | <u>\$ 161,320</u> | <u>\$ 200,063</u> | <u>\$ 361,383</u> |

CITY OF NEW BALTIMORE, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Assets
June 30, 2007

| | |
|---|------------|
| Fund balance - Downtown Development Authority | \$ 161,320 |
|---|------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|----------------------------------|-----------|
| Add: capital assets | 460,345 |
| Deduct: accumulated depreciation | (174,931) |

Certain liabilities, such as notes payable, are not due and payable in the current period and therefore are not reported in the funds.

| | |
|--------------------------|----------|
| Deduct: notes payable | (82,067) |
| Deduct: accrued interest | (3,284) |

| | |
|-------------------------------------|---------------------------------|
| Net assets of component unit | <u><u>\$ 361,383</u></u> |
|-------------------------------------|---------------------------------|

CITY OF NEW BALTIMORE, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2007

| | |
|--|-----------|
| Net change in fund balances - component unit | \$ 72,288 |
|--|-----------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|------------------------------|----------|
| Deduct: depreciation expense | (18,414) |
|------------------------------|----------|

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental

| | |
|--|---------------|
| Add: principal payments on long-term liabilities | <u>19,306</u> |
|--|---------------|

| | |
|--|--------------------------------|
| Change in net assets of governmental activities | <u><u>\$ 73,180</u></u> |
|--|--------------------------------|

CITY OF NEW BALTIMORE, MICHIGAN
ECONOMIC DEVELOPMENT CORPORATION
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2007

| | Governmental Fund | Adjustments | Statement of Net Assets |
|------------------------------------|------------------------------|-----------------------------|--|
| Assets | | | |
| Cash and cash equivalents | <u><u>\$ 15,775</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 15,775</u></u> |
| Fund Balance/Net Assets | | | |
| Undesignated | <u><u>\$ 15,775</u></u> | <u><u>(15,775)</u></u> | <u><u>-</u></u> |
| Net Assets | | | |
| Unrestricted | | <u><u>\$ 15,775</u></u> | <u><u>\$ 15,775</u></u> |

CITY OF NEW BALTIMORE, MICHIGAN
ECONOMIC DEVELOPMENT CORPORATION
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2007

| | Governmental | | Statement |
|---------------------------------------|-------------------------|--------------------|-------------------------|
| | Fund | Adjustments | of |
| | <u></u> | <u></u> | Activities |
| Revenues | | | |
| Investment earnings | \$ 420 | \$ - | \$ 420 |
| Beginning fund balance/net assets | <u>15,355</u> | <u>-</u> | <u>15,355</u> |
| Ending fund balance/net assets | <u>\$ 15,775</u> | <u>\$ -</u> | <u>\$ 15,775</u> |

CITY OF NEW BALTIMORE, MICHIGAN
LOCAL DEVELOPMENT FINANCING AUTHORITY
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2007

| | Governmental Fund | Adjustments | Statement of Net Assets |
|--------------------------------|------------------------------|--------------------|--|
| Assets | | | |
| Cash and cash equivalents | \$ 511,191 | \$ - | \$ 511,191 |
| Interest receivable | 1,614 | - | 1,614 |
| Total assets | \$ 512,805 | - | 512,805 |
| Fund Balance/Net Assets | | | |
| Undesignated | \$ 512,805 | (512,805) | - |
| Net Assets | | | |
| Unrestricted | | 512,805 | 512,805 |
| Total net assets | | \$ 512,805 | \$ 512,805 |

CITY OF NEW BALTIMORE, MICHIGAN
LOCAL DEVELOPMENT FINANCING AUTHORITY
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2007

| | Governmental Fund | Adjustments | Statement of Activities |
|---|------------------------------|--------------------|--|
| Revenues | | | |
| Property taxes | \$ 96,686 | \$ - | \$ 96,686 |
| Investment earnings | 21,297 | - | 21,297 |
| Total revenues | 117,983 | - | 117,983 |
| Net change in fund balance/ change in net assets | 117,983 | - | 117,983 |
| Beginning fund balance/net assets | 394,822 | - | 394,822 |
| Ending fund balance/net assets | \$ 512,805 | \$ - | \$ 512,805 |

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 2, 2007

To the Honorable Mayor and Council
City of New Baltimore, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the *City of New Baltimore, Michigan* (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding 2007-1 – Reconciliation of Liabilities and Deferred Revenues

| | |
|---------------------------------------|---|
| Criteria: | All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.) |
| Condition: | The City has multiple accrued liabilities and deferred revenue accounts that appear to have not been reconciled or validated to the underlying supporting documentation. |
| Cause: | This condition was caused by the City's internal controls over the timely review and reconciliation of these accounts. |
| Effect: | As a result of this condition, the City may potentially overstate or understate liabilities and/or deferred revenues in an amount that is more than inconsequential to the financial statements. |
| View of Responsible Officials: | During the year ended, June 30, 2007, the City began the process of creating internal controls for certain liability and deferred revenue accounts which were finalized and implemented in September 2007. |

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City in a separate letter dated October 2, 2007.

The City's responses to the findings identified in our audit are described above. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the board members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

October 2, 2007

To the Honorable Mayor and City Council of the
City of New Baltimore, **Michigan**

We have audited the financial statements of City of New Baltimore for the year ended June 30, 2007, and have issued our report thereon dated **October 2, 2007**. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated **June 14, 2007**, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of City of New Baltimore. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of New Baltimore's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of New Baltimore are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of New Baltimore during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on City of New Baltimore's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by City of New Baltimore, either individually or in the aggregate, indicate matters that could have a significant effect on City of New Baltimore's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of New Baltimore’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Governing Body, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

City of New Baltimore

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of City of New Baltimore (**the “City”**) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the **City’s** internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **City’s** internal control. Accordingly, we do not express an opinion on the effectiveness of the **City’s** internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider certain deficiencies, as described in our *“Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards”* dated **October 2, 2007**, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

A - New Auditing Standards for Upcoming Year

In March 2006, the Auditing Standards Board issued eight auditing standards, collectively referred to as the *risk assessment standards*. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006.. Most auditors believe that the changes caused by the new risk assessment standards are the most significant in recent history.

Overall, the new standards should increase the effectiveness of financial statement audits. In applying the risk assessment standards, auditors explicitly consider higher areas by focusing on what is most likely to go

City of New Baltimore

Comments and Recommendations

For the Year Ended June 30, 2007

wrong that could affect the financial statements. Auditors assess the risk that the financial statements are materially misstated and design and perform audit procedures to respond to those identified risks. In performing audits under the new standards, auditors and clients may find that they may need to spend more time (at least in the year of adoption) documenting their understanding of internal control systems for each significant area and financial statement assertion as it relates to what could go wrong from a financial reporting focus, mitigating controls, and determining if those controls have been implemented.

Recommendation:

We would recommend that the City begin defining the significant areas and accounting cycles related to financial reporting, identifying “what could go wrong” scenarios and the controls that the City has in place to mitigate the impact related to each financial statement assertion.

We of course are willing and able to provide guidance and assistance in developing these new internal control models at any level of involvement as the City determines.

We believe that the City will benefit by having a working model to easily access the City’s strengths and areas of improvement over internal controls, a physical resource to demonstrate the City’s resolve and commitment to good financial reporting and fiscal responsibility, and a proactive approach to help mitigate the rising costs of audit services due to increasing standards and regulations.